

IN THE UNITED STATES DISTRICT COURT  
IN AND FOR THE DISTRICT OF DELAWARE

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MCKESSON AUTOMATION, INC., :  
 :  
Plaintiff, :  
 : C.A. No. 06-028 (SLR/LPS)  
v :  
 :  
SWISSLOG ITALIA S.P.A. and :  
TRANSLOGIC CORPORATION :  
 :  
 :  
Defendants. :

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Wilmington, Delaware  
Tuesday, May 20, 2008 at 11 a.m.

PRETRIAL CONFERENCE

- - -

BEFORE: LEONARD P. STARK, MAGISTRATE

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APPEARANCES:

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and

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2 P R O C E E D I N G S

3 (REPORTER'S NOTE: The following Pretrial  
4 Conference was held in open court, beginning at 11:00  
5 a.m.)

6 THE COURT: Good morning.

7 MR. JACOBS: Good morning, Your Honor.

8 MR. FABRICANT: Good morning, Your  
9 Honor.

10 THE COURT: Welcome to you all. This is  
11 the time, as you all know, that we have set for oral  
12 argument on, I believe, it's four separate motions. If I  
13 am right, Swisslog is the movement on three and McKesson  
14 on the other. But I think it will be easiest for me if I  
15 just give you each time to address whatever issues it is  
16 that you want to address.

17 And since the primary motion is the  
18 motion to dismiss for lack of standing, I want to hear  
19 first from Swisslog. Okay.

20 MR. FABRICANT: Good morning, Your  
21 Honor.

22 THE COURT: Good morning.

23 MR. FABRICANT: Your Honor, I am Fred  
24 Fabricant from the law firm of Dickstein Shapiro,

1 representing the defendants in the case. Our instructor,  
2 Brian DeMatteo, also with the law firm of Dickstein  
3 Shapiro, and Julie Heaney is our local counsel.

4 Your Honor, the motion to dismiss for  
5 lack of standing started as a motion for lack of standing  
6 on its own. And it started out that way because during  
7 the course of reviewing the documents produced by the  
8 plaintiff in the spring and summer of 2007, we discovered  
9 a file, which was a due diligence file, of the McKesson  
10 attorneys that had been used in connection with their  
11 acquisition of the AHI Company, which was the original  
12 owner of the patents in suit.

13 And what we found when we reviewed that  
14 file was that there had in fact been an assignment, an  
15 actual outright assignment, with an assignment document  
16 to two separate parties. And, Your Honor, if I may,  
17 because there are some documents I would like to go  
18 through today, all of them are exhibits to the papers  
19 before the Court, but just for reference sake, to show  
20 the Court several of these as we go through.

21 THE COURT: That's fine.

22 MR. FABRICANT: And this is the  
23 assignment document, which is in DeMatteo Moving  
24 Declaration Exhibit B. This is the document which was

1     executed by Sean McDonald, the president and founder of  
2     AHI, so there is no question he was a person of  
3     authority. And this document conveys to two parties, 100  
4     percent of the interest in the then pending patent  
5     application and all subsequent rights that might develop  
6     as a result of that patent application, including patents  
7     that would issue continuations and the like.

8                     THE COURT: This copy, though, it's only  
9     signed by Mr. McDonald, I believe. Is that typical for  
10    an assignment agreement that only the assignor is  
11    signing, and have you seen a copy that would be signed by  
12    both sides?

13                    MR. FABRICANT: I don't think it's  
14    typical that an assignee signs an assignment document,  
15    Your Honor.

16                    THE COURT: And is that a relevant  
17    consideration, since I understood your position to be, at  
18    least in part, look at the face of this assignment  
19    agreement on its own and separate and independent from  
20    the notes and the term sheets and the stock purchase  
21    agreement, since this recites consideration and it seems  
22    clear and unambiguous, but it is in fact only signed by  
23    one side to the transaction. So I'm not sure that I  
24    could consider it in the abstract and not with all the

1 other documents.

2 MR. FABRICANT: I understand. I do  
3 believe that it is common practice for the assignor to  
4 sign an assignment document and for the assignee not to  
5 be present as a signatory on an assignment document.  
6 That is common in the practice of patent assignments.  
7 This document states consideration on its face, having  
8 been received and in addition to other stated  
9 consideration. It clearly conveys 100 percent -- not  
10 unlike if I transferred my automobile to Mr. Drucker, and  
11 I signed the title to Mr. Drucker and I conveyed 100  
12 percent of my interest. Mr. Drucker doesn't sign the  
13 form that I convey my interest to him. It's not even a  
14 place for it on the title assignment.

15 THE COURT: Let me ask you this: Would  
16 AHI as the assignor have an enforceable right to the one  
17 dollar consideration, absent any signature from the  
18 assignee?

19 MR. FABRICANT: Well, the consideration  
20 is stated as having been received, I believe, so I guess  
21 they wouldn't. And I realize this is typical lawyer  
22 boilerplate consideration having been received of one  
23 dollar, but that's why it's stated as consideration  
24 received.

1 THE COURT: So just to put the fine  
2 point on it. Is it your view that this assignment  
3 agreement is legally enforceable in and of itself as a  
4 separate stand-alone document.

5 MR. FABRICANT: Yes, it is. Now, I  
6 don't ask the Court obviously to ignore the other  
7 documents which have been presented to the Court, but I  
8 do believe that we start with the premises that this is a  
9 legally enforceable assignment document, and that if  
10 other things had not happened here -- some of which are  
11 still in dispute, Your Honor. It is not undisputed  
12 whether this loan arrangement that these gentlemen made  
13 at the same time as the assignment, whether those loans  
14 were ever repaid. That's an open question.

15 So putting aside those questions, we  
16 believe that this is an assignment that stands by itself.  
17 It conveyed 100 percent of the rights to this patent  
18 application and technology.

19 When we discovered this, Your Honor, we  
20 immediately asked the McKesson counsel for any evidence  
21 of an assignment back or any proof that, in fact,  
22 McKesson is in fact the title holder of the patent. This  
23 started in about July of 2007, promises to provide us  
24 with the information; and ultimately, by October of 2007,

1 despite our repeated e-mail requests and letters and  
2 comments at depositions, nothing was forthcoming. So we  
3 made a motion to dismiss the case for lack of standing,  
4 which is a matter of subject matter jurisdiction. A  
5 party to a patent lawsuit does not have ownership rights  
6 or sufficient ownership rights, there is a lack of  
7 subject matter jurisdiction. So we believe, as a matter  
8 of right, that motion was made and timeliness is not even  
9 a factor with respect to that aspect of the motion.

10                   Ultimately the counsel for McKesson  
11 asked Magistrate Judge Thyne for permission to take the  
12 depositions of the two parties represented by these  
13 assigness, Mr. Demmler, who was the manager of the  
14 Pittsburgh seed fund, and Dr. Heilman, who was a separate  
15 individual assignee. They split it up at 71.4 percent to  
16 the fund and 28.6 percent to Dr. Heilman. And at the  
17 time McKesson's counsel urged Magistrate Judge Thyne that  
18 it was essential, that they had to take these depositions  
19 in order to respond. The time for such depositions had  
20 passed. We argued that point before Magistrate Judge  
21 Thyne, and she allowed them to take those two  
22 depositions.

23                   What I think is crucial to this motion  
24 is that at the depositions they didn't have any of the



1 questions which this court, I'm sure, would like to have  
2 heard the answer to, like: Do you have an ownership  
3 interest in the patent? Do you continue to have an  
4 ownership interest in the patent? They didn't ask those  
5 questions, Your Honor. They didn't ask those questions,  
6 Your Honor, because in the gap of time between the time  
7 he made the motion and the time of those depositions, a  
8 gap of several months, the counsel for McKesson prepared  
9 draft affidavits for both of those witnesses, Dr. Heilman  
10 and Mr. Demmler.

11 And in those draft affidavits, which are  
12 part of the record, and I would like to emphasize some  
13 points for the Court, they asked these individuals to  
14 disavow, in effect, any ownership rights, any continuing  
15 claims they might have. They asked these witnesses to  
16 confirm that the loans were repaid. And the reason why  
17 they did this, Your Honor, was because in this district  
18 when one reviews the cases which ultimately were  
19 submitted to the Court, it can be readily seen that Judge  
20 Robinson herself, in 2006, in the Matthews case and other  
21 decisions of both the District of Delaware and other  
22 courts, that the crucial factor that often comes into  
23 play in these standing motions is whether or not this  
24 other nonparty disavows any rights, says I will never

1 pursue these rights, and in the 2006 case here in the  
2 District of Delaware, that's exactly what was the basis  
3 for Judge Robinson's decision. We then find these draft  
4 affidavits, which we discovered when we spoke to these  
5 witnesses and found out that McKesson's counsel had been  
6 in contact and had provided them with draft affidavits.  
7 Magistrate Judge Thyne ordered that they produce, and we  
8 exchange with each other any communications we have had  
9 with these individuals.

10 THE COURT: And a suggestion, you  
11 proposed draft affidavits as well and the inventors  
12 refused to sign yours too; is that correct?

13 MR. FABRICANT: Their characterization  
14 is false. We did propose to Mr. Demmler only, not  
15 Dr. Heilman, to Mr. Demmler, an affidavit, a proposed  
16 affidavit which said only the following -- and I will be  
17 happy to submit a copy of it to Your Honor. It is not  
18 part of the papers. All it said was, which is what this  
19 witness told us on the telephone, "I don't remember  
20 whether I assigned that. I don't remember whether the  
21 loan was repaid." That's what it said. It did not  
22 propose any business relationship. It did not do  
23 anything more than that.

24 However, the affidavits, as I mentioned

1 from McKesson's counsel, first Mr. Demmler's proposed  
2 after, Exhibit L to Mr. DeMatteo's apply declaration.  
3 Here is his draft after; it purports to be on firsthand  
4 knowledge of the facts.

5                   On the second page, in paragraph 13 --  
6 and this is important, Your Honor -- they used words  
7 about how this individual should characterize this  
8 transaction. And they say to secure the repayment of the  
9 funds loaned to Automated pursuant to the promissory  
10 notes, both the bridge loan and the November loan. The  
11 collateral or security for repayment provided by  
12 Automated was an assignment of the technology rights  
13 associated with the patent application of January 24,  
14 1990."

15                   I focused on that for a moment because  
16 that's not the language of the assignment. The  
17 assignment and the original promissory note, which is  
18 actually executed by Mr. Demmler, is an assignment of the  
19 patent application itself, not an assignment of the  
20 technology rights. Now I will make this point. When I  
21 finish with these affidavits I would like to show Your  
22 Honor very important evidence that was produced after  
23 this motion was pending. A box was supposedly found of  
24 documents never previously were produced which had

1 additional information. And in that box were draft  
2 promissory notes --

3 THE COURT: Let me just caution you at  
4 this point. I understand you use the word supposedly and  
5 you have made certain suggestions that seem to be  
6 suggestions of bad faith on the part of your friend on  
7 the other side, and unless you really have strong support  
8 for that, I rather you stick to the evidence and don't go  
9 to "supposedlies."

10 MR. FABRICANT: Your Honor, I only meant  
11 to say documents were produced after the motion was made  
12 which were never previously produced.

13 THE COURT: That's fair.

14 MR. FABRICANT: Not getting into the  
15 reasons why. I don't know the reasons why.

16 In that box of documents were draft  
17 promissory notes for this transaction. And the draft  
18 promissory notes did not refer to an assignment of a  
19 patent. They referred to an assignment of technology --  
20 not even an assignment. They referred to security  
21 interests in technology rights.

22 And the language being proposed here,  
23 when I show Your Honor those draft notes, is really the  
24 language of the draft notes, which were rejected, and not

1 the language of the notes which were actually executed by  
2 the parties. That evidence will go if the Court looks at  
3 the substance, the merits of the case at all, and  
4 McKesson has made a point of the intent of the parties.  
5 The intent of the parties clearly here, as the witnesses  
6 testified at the deposition, was to grant an assignment.  
7 They felt secure with an assignment of the outright  
8 patent as opposed to --

9 THE COURT: Why after, really after June  
10 of '90, why is there no evidence of anyone ever acting as  
11 if there was an assignment? That is, in November of '90,  
12 you know, they execute the other note and pledge -- I  
13 don't know if it's pledge, but they reference assigning  
14 those rights again.

15 But on your view of the case, AHI didn't  
16 have any rights to assign for the November note. And  
17 then you go forward to 1994, in the Partek transaction,  
18 and '96, all the representations made to McKesson. And  
19 17 years or whatever pass and the inventors never  
20 actively have any interest. So explain to me, if I am  
21 agree with you up until the moment of June 29th of 1990,  
22 why is it not the case that everything that happened  
23 after that is totally contradictory to your view of the  
24 case?

1 MR. FABRICANT: Well, point by point,  
2 first of all, the subsequent McKesson transaction, the  
3 subsequent security transaction in 1994, I believe it  
4 was, the subsequent representations to McKesson at the  
5 time of the transaction, as those witnesses testified at  
6 the deposition, when they were handed a 100-page  
7 transaction document from McKesson, which in the first  
8 sentence said, you know, you agree that everything stated  
9 within this document is accurate and correct, and  
10 supposedly had schedules attached. First of all the  
11 copies produced didn't have the schedule. We don't know  
12 if they ever saw the schedule. They testified they don't  
13 know if they ever saw the schedule. Even if they had see  
14 the schedule, it didn't refer to the patent application  
15 that they had an assignment in; it referred to a patent  
16 number that had ultimately issued.

17 So it's pretty clear they would not have  
18 known, even if they had read the document that this  
19 covered this particular aspect. With respect to all of  
20 the other things, I will put it this way as a result of  
21 this lawsuit and as a result of McKesson looking for the  
22 assignment back, they stirred up this issue of whether or  
23 not there in fact was a proper chain of title and  
24 transfer of title. We can't undo that. The result of

1 this, the result of this is -- even if these individuals  
2 from the time of the assignment in 1990 until the fall of  
3 2007 were not awakened to the fact that they have legal  
4 title to this, to these patents in suit. As a result of  
5 what has happened here they were contacted by McKesson's  
6 counsel. They were asked whether they had the assignment  
7 backed up. They were given a lot of information about  
8 this. They retained counsel. Their counsel actually  
9 contacted our law firm and wanted to know whether there  
10 was a business transaction that could be resolved here.  
11 I don't know. Perhaps they made the same kind of  
12 advances toward McKesson. I don't know.

13 But what's happened here is if there is  
14 a party that has legal title, a claim to legal title  
15 based upon the transactions, even if they didn't follow  
16 it up, over the last however many years, it creates a  
17 situation where we now have two parties, two separate  
18 groups, a fund with many limited partners, and an  
19 individual who is a very sophisticated individual, who  
20 may have claims to patents in suit, which they deem as  
21 being very valuable. That wasn't as a result of our  
22 doing or our making, that's as a result of --

23 THE COURT: Go back to 1990.

24 MR. FABRICANT: Yes, Your Honor.

1 THE COURT: Because I guess I want to  
2 hear what do you say about the November 1990 transaction  
3 between AHI and the inventors? I think there was another  
4 \$50,000 loan.

5 MR. FABRICANT: I don't believe that's  
6 at all inconsistent with the prior two assignment  
7 documents, the prior two notes entered into in June of  
8 that year. And the reason I don't believe it was  
9 inconsistent, because that was an additional promissory  
10 note which used the same language as the prior notes.  
11 If, for example, they wanted to make sure that they still  
12 had the assignment, which they already had in their hand,  
13 could the words have been different, yes; but if, let's  
14 suppose the prior notes had been repaid, but that later  
15 note had not been repaid, they wanted to make sure they  
16 still had a valid assignment of the patent. It's  
17 possible that only one of three would be paid. That two  
18 of three would be paid. And I believe it was just, using  
19 the same language to make sure it was understood, there  
20 was an outright assignment. The assignment was dated  
21 June. Now they were borrowing another \$50,000. This  
22 would have been protected them in the event of default of  
23 some but not all of the notes.

24 I don't believe it's inconsistent that



1 the mere fact they took another \$50,000 from these  
2 parties undid the nature of the assignment which had been  
3 granted several months earlier.

4 THE COURT: So the idea that McKesson  
5 raises, which is I need to reject your view of the case  
6 because otherwise the November '90 transaction is one in  
7 which AHI is purporting to sign something that it had no  
8 right to sign. You say that's not the way to read that  
9 November '90 document?

10 MR. FABRICANT: I think it's clear they  
11 had already received the assignment and therefore the  
12 words in the 23406 promissory note which said it shall be  
13 secured by an assignment. The assignment had already  
14 taken place. There was nothing else they had to do.

15 THE COURT: Well, it's a nullity what  
16 AHI had represented with respect to the assignment.

17 MR. FABRICANT: I don't believe it's a  
18 nullity. I believe it was additional words which gave  
19 them security in the situation where the first two loans  
20 were repaid and they still --

21 THE COURT: How can they give that  
22 security on your view of the case, AHI didn't have any  
23 interest whatsoever in the patent, in the things that  
24 they assigned on June 29th of 1990.

1 MR. FABRICANT: I agree that AHI did not  
2 have a patent to assign in November of 1990. It had  
3 already been assigned. I agree with that. That is our  
4 position.

5 THE COURT: So how can AHI say, well, if  
6 those first two notes are paid off, you can still use the  
7 assignment as security in November '90? I mean, AHI had  
8 no ability to control what happened to the assignment, to  
9 the patent --

10 MR. FABRICANT: There might be an  
11 assignment back prior to the date. There are a number of  
12 things that might have happened and I agree that once you  
13 assign something it's not the best use of language to not  
14 make that a stated point in the third note. But I don't  
15 think it undermines the fact that there was an outright  
16 assignment, that they had not been repaid as of the date  
17 of November. There is no question about that. So that  
18 whatever assignment was made, without any dispute, had  
19 clearly not been extinguished or undone. They clearly  
20 had made that assignment, there had been no repayment.

21 THE COURT: I guess the common sense  
22 question, going back to it, is you want to take me  
23 through and have me focus on the drafts and everything  
24 leading up to the moment on June 29th, 1990, when they

1     executed the assignment agreement as well as those notes,  
2     to make it clear, in your view, that the intent of the  
3     parties was an absolute assignment and not just a  
4     security interest. And yet everything, at least  
5     beginning with November 1990, is inconsistent with the  
6     parties having such an intent. And so why doesn't that  
7     mean that your argument about what the intent was is  
8     actually not persuasive?

9                     MR. FABRICANT: Well, it starts with the  
10    premise, Your Honor, that this court should even be  
11    inquiring into the specific intent of the parties,  
12    parties not before this court. It starts with the  
13    premise that for this court to look at what was meant by  
14    the fact that the two notes which didn't assign the  
15    patent and only granted the security interest were  
16    rejected days before. It asks this court to construe  
17    that intent. Then it asks this court to look at what  
18    were the reasons for the November language in the note.  
19    And then it asks this court to look at whether the loan  
20    was repaid, because if the loan wasn't fully repaid, and  
21    I mean all three notes repaid, then even the security  
22    interests theory wouldn't fly. Then it asks this court  
23    to evaluate the ramifications of the recent Federal  
24    Circuit decision, from January 2008, which we cited to

1 Your Honor, which that court addresses automatic  
2 assignments in that case in the context of an employment  
3 agreement but no less applicable in the situation of an  
4 automatic assignment back as the McKesson people argued,  
5 in which case the Federal Circuit in 2008 stated that you  
6 would not gain legal title as a result of a promise to  
7 assign in the future an automatic assignment back.

8 The court also went further and said  
9 that when it comes to patent assignments, you don't look  
10 to state contract law, you look to federal law, which  
11 looks to the language of the contract.

12 So when Your Honor starts taking into  
13 consideration all of the factors that McKesson has urged  
14 in its opposition, what was the intent of the party, form  
15 over substance, were the loans repaid, what's the  
16 applicant of a self-extinguishing assignment under  
17 Pennsylvania state law, in light of the Federal Circuit  
18 decision, and keep in mind the No. 1 thing to point out  
19 today, which is once all of this became known and the  
20 additional documents produced and the draft affidavits  
21 were reviewed and the depositions taken, we could see  
22 that the seed fund and Dr. Heilman became necessary and  
23 indispensable parties in order for the court to resolve  
24 this dispute. How can the court resolve this dispute

1 without the parties present.

2 And that's why in reply to all of the  
3 factors raised by McKesson -- and all we asked in the  
4 initial motion under 12(b)(1) was that they establish  
5 they have standing. They raised in opposition all of  
6 this, look at the intent, look at the form, all of these  
7 issues, which go to the heart of this court having to  
8 make a decision without necessary and indispensable  
9 parties present. So it became a motion to dismiss as  
10 well as 12(b)(1) for lack of standing for, under  
11 12(b)(7), for lack of necessary and indispensable  
12 parties.

13 THE COURT: Could I simply say, though,  
14 without reaching the ownership issue fully stopped, that  
15 had they met their burden of proof or production at this  
16 procedural moment in the case and, you know, the final  
17 determination, if necessary, as to ownership will be at a  
18 later point in this case.

19 MR. FABRICANT: Well, that I think gets  
20 to the issue of, if Your Honor were to conclude that, as  
21 to whether these parties are necessary and indispensable  
22 parties. How are we going to decide at a later date or  
23 at any date prior to trial, or even at trial, the  
24 ownership issues without the parties present that have

1 the facts, that have the evidence, that have the  
2 potential claim, without them present, whatever result  
3 this court adjudicates ultimately would then run face on  
4 into the risks of Rule 19. Not only with respect to  
5 Swisslog's interests, because obviously we have  
6 counterclaims for invalidity of the patent; we have  
7 counterclaims for non- infringement of the patent; we  
8 have a proposed counterclaims, which we will address with  
9 Your Honor, on enforceability of the patent.

10 If there were be an adjudication, it  
11 would not be a final adjudication with respect to the  
12 patent. We would have to do it, perhaps, all over again.  
13 When it comes to the rights of these individuals in this  
14 fund, their rights would be affected. We've cited to  
15 Your Honor decisions that, even though the results of  
16 this litigation are not res judicata or in collateral  
17 estoppel against those entities or those parties, as a  
18 practical matter, as the Gonzales case has said in other  
19 courts, their rights have been affected. It will be a  
20 Markman decision that they will not have been  
21 participated in. There may be a practical impact if they  
22 have rights to pursue though rights in the future.

23 So we run smack into the fact that they  
24 are a necessary party; they are not, we don't believe,

1 joinder as feasible, although I don't know plaintiff has  
2 tried to join them; that they don't reside in the state  
3 of Delaware and they have not done any business here, to  
4 our knowledge, so they may not be able to get personal  
5 jurisdiction over them, in which this case I think  
6 clearly they would be an indispensable party.

7 THE COURT: Well, with the Federal  
8 Circuit decisions in the Applied Companies, which is a  
9 case involving a government contract and looking at  
10 whether that was an assignment there or a security  
11 interest. It's cited by McKesson, but I didn't see where  
12 you had a response to it.

13 MR. FABRICANT: I am trying to recall  
14 that case, Your Honor.

15 THE COURT: Sure. There are a lot of  
16 cases.

17 MR. FABRICANT: A lot of cases.

18 THE COURT: It's 144 F.3d 1470 (Fed.  
19 Cir. 1998), a decision of the Federal Circuit in the  
20 Applied Companies vs. United States.

21 MR. FABRICANT: I don't recall it  
22 offhand, Your Honor.

23 THE COURT: Maybe we will have you back  
24 up on rebuttal, if you have anything to say about that.

1 MR. FABRICANT: What I would like to  
2 point out, with respect to the law, is that when Your  
3 Honor looks at -- and I thought we had addressed all of  
4 the cases cited in their brief.

5 THE COURT: You didn't address that one.

6 MR. FABRICANT: You may be right, Your  
7 Honor.

8 But basically, when we went through the  
9 cases, case by case, I did not find any case that, where  
10 the nonparty, who was the subject of this Rule 19 issue,  
11 was a prospective assignee of a patent who might have  
12 ultimate ownership rights to the patent and where a court  
13 refused to join that -- or where a court allowed a case  
14 to go forward without the presence as a necessary  
15 indispensable party of a patent owner by assignment.  
16 Case by case, as I went through the decisions cited by  
17 McKesson, there was the Kahn vs. General Motors case,  
18 which was a case where --

19 THE COURT: You don't need to run  
20 through those.

21 MR. FABRICANT: Right. But I went  
22 through them and I will address the case, if I can, which  
23 Your Honor has raised. But I didn't find a case where  
24 there was an outright assignment where there wasn't some



1 other issue of either reacquiring the rights or  
2 disavowing the rights or disclaiming the rights or some  
3 other factor not applicable to the present case but an  
4 outright assignment to a nonparty not subject to joinder  
5 in the case. I didn't see that in the case law.

6 THE COURT: What about Section 261  
7 relating to the recording of assignments?

8 MR. FABRICANT: Yes, Your Honor.

9 THE COURT: Explain to me your position  
10 on that and why that doesn't win the day for McKesson.

11 MR. FABRICANT: Our position is that  
12 very simple, which is Section 261 has one big  
13 requirement, and that is that you don't have actual  
14 notice of the prior assignment.

15 THE COURT: And what is the proof here  
16 that they had notice of the assignment, specifically the  
17 two-page document that you put up earlier?

18 MR. FABRICANT: Yes, Your Honor. This  
19 was produced by McKesson out of McKesson's due diligence  
20 files involving their acquisition of AHI in 1956.

21 THE COURT: So those two pages you put  
22 up the assignment of invention that were produced from  
23 that folder by McKesson?

24 MR. FABRICANT: Yes. Along with the

1     executed promissory notes, along with some of the other  
2     documents relevant to this transaction. It was in a  
3     folder marked "McKesson Due Diligence." So we know that,  
4     as a matter of fact, I don't see any way to dispute the  
5     fact by McKesson, that they had actual notice of the  
6     transaction.

7                     And so we believe once you have actual  
8     notice, the provisions of 261 do not apply.

9                     THE COURT: And go back to an issue you  
10    alluded to of these recent Federal Circuit decisions, I  
11    think a couple of them from this year. Help me out on  
12    what is at stake, in your view, as to whether I apply  
13    federal or Pennsylvania law? Is that an issue I need to  
14    reach, and if so, why?

15                    MR. FABRICANT: Well, the DDB Tech case,  
16    from January of 2008, was the case that previously I was  
17    referring to about the Federal Circuit. I think the  
18    ramifications of that case is that this entire theory on  
19    the merits that McKesson has raised in opposition, that  
20    even if there was no assignment back, the assignment back  
21    was in effect self-extinguishing because of the security  
22    interest under Pennsylvania state law. I think what the  
23    Federal Circuit said in the DDB Tech case was, if you  
24    look to federal contract interpretation law, which

1 doesn't necessarily take into account the Uniform  
2 Commercial Code, and there the court described, looking  
3 at the language of the contract, and then they went  
4 through that process in that decision where they  
5 ultimately remanded to the district court for  
6 jurisdictional discovery, which the district judge had  
7 not allowed in dismissing the case. So there was no  
8 ultimate resolution, as far as I know as of today, but  
9 there was a motion to dismiss based on lack of standing;  
10 that was a case dealing with an purported automatic  
11 assignment. The court not only said, we look to the  
12 explicit expressed language of the contract, not to state  
13 law in patent cases, but also that made an express  
14 statement that the promise to assign in the future or the  
15 automatic-assignment scenario would not allow legal title  
16 to pass. Even if, even if there was a promise or even if  
17 there was to be an automatic assignment, that legal title  
18 would not pass. And that was the import, I think, of  
19 that decision to this case.

20 So I would argue, and I think we have  
21 stated this in our briefs, that the Pennsylvania  
22 provision of the Uniform Commercial Code, as to whether  
23 or not this was a security interest rather than an  
24 assignment, if it was a security interest, whether it

1 would be self-extinguishing not be applicable.

2 THE COURT: And what about the Akazawa  
3 case, which I think is an even more recent Federal  
4 Circuit case, in March of this year, which seemed to talk  
5 about state law governing patent ownership over federal?  
6 I'm not entirely clear, but I'm looking for help on that.

7 MR. FABRICANT: If I could handle that  
8 on rebuttal, Your Honor.

9 THE COURT: Okay.

10 MR. FABRICANT: I am just unprepared,  
11 Your Honor.

12 THE COURT: Okay. Why don't -- two  
13 things I want to make sure you cover before you sit down.  
14 One is are there some new documents that I haven't seen  
15 that you wanted to allude to, some recently discovered  
16 evidence or something, and also whatever it is you want  
17 to tell me about the other motions that we haven't  
18 discussed yet.

19 MR. FABRICANT: Oh, sure. I don't  
20 believe there are any new documents that are not attached  
21 as exhibits to either McKesson's briefs or declarations  
22 or ours, no additional documents.

23 THE COURT: Okay.

24 MR. FABRICANT: I do, as I said, I would

1 ask the court to look at -- I won't go through them all,  
2 but ask the court to look at, if we got into the issue of  
3 deciding the merits of this ownership question at all  
4 here without these parties present, the draft notes that  
5 were rejected, which have very different language which  
6 clearly create a security interest and not an assignment  
7 of a patent. And the ramification of that on the  
8 evaluation of the intent of the parties.

9                   Also, I would point to the fact, and I  
10 think this is crucial to Your Honor's decision if you get  
11 past the indispensable party issue and actually looked at  
12 the merits of the arguments that McKesson has raised, the  
13 documents that were produced after the motion was made  
14 that were located by McKesson and produced to us, the  
15 witnesses were unable to identify or remember or  
16 recollect any of the handwriting on these exhibits. They  
17 were asked that. They were unable to do that. There is  
18 no evidence before the court as to who placed the  
19 handwriting destinations on these documents, so we don't  
20 know.

21                   One of the issues Your Honor would have  
22 to decide, we believe, if it was to be an evidentiary  
23 determination of this issue of ownership, is were the  
24 loans ever even repaid in full, because without that even

1 a security interest theory doesn't cut it. So just for a  
2 moment, Your Honor, I would show -- and this causes us  
3 some concern -- here is the promissory note that was  
4 produced after the motion was filed as to the \$42,000  
5 loan, and you can see that there has been placed on the  
6 document the word "void." And down at the bottom left it  
7 says paid 12/27/90, down here.

8 THE COURT: Is that for Heilman or  
9 for PSF?

10 MR. FABRICANT: The notes apply to both  
11 of them, I believe. This is, I believe, it's both of  
12 them. Oh, no, this is Steven Heilman. This is Steven  
13 Heilman, Your Honor.

14 THE COURT: Okay. Just for the record,  
15 will you read the Bates number into the record, please.

16 MR. FABRICANT: Yes. This is Bates No.  
17 M0474909. And I believe it was DeMatteo Reply  
18 Declaration Exhibit M.

19 And then there was another document  
20 provided at the same time, after the motion was filed,  
21 which was DeMatteo Reply Declaration Exhibit M, but at a  
22 different page, M0474912 to 13, and this is the \$107,000  
23 note. And this was says "Cancelled, paid in full." It  
24 looks like the same handwriting, but no one has

1 identified whose handwriting this is or who made these  
2 notations. And, again, we have what we believe is a  
3 disputed issue as to whether there ever was a full  
4 repayment of these loans.

5 And I believe on the lack of standing  
6 issue and the indispensable party issue that's all I have  
7 for the court at this time.

8 THE COURT: Okay. And on the other  
9 motions?

10 MR. FABRICANT: Yes, Your Honor.

11 THE COURT: Was there anything you  
12 wanted to say with respect to them?

13 MR. FABRICANT: Yes. Your Honor, I'm  
14 going to address, with the Court's permission, the motion  
15 to amend the answers, the answer and counterclaims, and  
16 Mr. Drucker will address the other motions.

17 THE COURT: That's fine.

18 MR. FABRICANT: Your Honor, on the  
19 answer, the amendment, the proposed amendment to the  
20 answer and counterclaims, the scheduling order had  
21 provided a date for motions to amend cut-off of December  
22 20, 2006. As a matter of fact, no documents were  
23 produced before that date, no depositions were taken  
24 before that date. The documents were produced from

1 McKesson to Swisslog in sort of rolling fashion that  
2 began sometime in the spring of 2007, after their  
3 deadline had already passed. The document production  
4 continued until -- in fact, one of the largest  
5 productions, if not the largest of 250,000 pages,  
6 occurred in the fall of 2007, long after this deadline  
7 had passed. And therefore as a result of the timing of  
8 the document productions, depositions in this case, by  
9 Swisslog of the McKesson witnesses, the 30(b)(6)  
10 depositions didn't start until late May of 2007, long  
11 after this deadline had passed. We went into the summer  
12 of '07.

13                   And the crucial depositions actually, in  
14 large part, were taken during the summer of 2007,  
15 culminating in the deposition of Sean McDonald, the  
16 founder, inventor, a person with duty of candor, the  
17 person who founded the company, on August 30, 2007. So  
18 approximately seven days after the deposition of Sean  
19 McDonald, we wrote McKesson's counsel and advised them  
20 that we would like to make a motion to amend our answer  
21 and counterclaims, asking their permission to do so,  
22 consent to do so, and they refused to grant that.

23                   So we have, obviously, three major  
24 factors on a motion to amend, such as this one, undue



1 delay, whether the amendment would be futile, and the  
2 prejudice to the parties as a result of any amendment.

3 THE COURT: Before we get to those, let  
4 me just ask you, if I were to grant your motion to  
5 dismiss for lack of standing, would your motion then to  
6 amend, basically just the counterclaims at that point,  
7 would that still be an issue in front of me or would that  
8 be mooted?

9 MR. FABRICANT: I think the  
10 counterclaims, Your Honor, would still be an issue.  
11 Although if Your Honor dismissed without prejudice, as  
12 Your Honor might be inclined to do, and not knowing who  
13 the true owner of the rights might ultimately be found to  
14 be, we might not pursue those counterclaims because we  
15 might pursue them against the wrong party.

16 So, as a practical matter, I believe if  
17 the case were dismissed without prejudice, probably all  
18 of the case would go away until such time as the proper  
19 parties stepped forward.

20 THE COURT: On the assumption I am not  
21 doing that, tell me what I need to know about this  
22 motion.

23 MR. FABRICANT: Yes. Undue delay, Your  
24 Honor, not only is the window of time relatively short,

1 particularly in light of the fact the document production  
2 just started in the spring of '07 and depositions  
3 throughout, until the end of August of '07, but what the  
4 evidence collected during that period related directly to  
5 the amendments which we now seek to make at this time.

6               With respect to inequitable conduct for  
7 failure to disclose material information to the patent  
8 office, in our original answer and counterclaim we  
9 reserved the right to add additional affirmative offenses  
10 with respect to patent defenses. We did not, at that  
11 time, and I don't think it would have been appropriate to  
12 allege inequitable conduct, because inequitable conduct  
13 requires a pleading of the nature of a fraud pleading  
14 under Rule 9, and therefore we did not have the ability  
15 at that time to plead with particularity.

16               We did receive some documents, in the  
17 spring and summer of 2007, which suggested that there had  
18 been some demonstrations or tests or public displays, but  
19 we didn't know who was at them, who attended them, who  
20 knew about them, what actually happened at those  
21 demonstrations. We took the deposition in the summer of  
22 two people in 2007, the two people who were knowledgeable  
23 about what actually happened, Mr. Keyes, who was a  
24 cofounder; we took his deposition in the summer of '07,

1 and Sean McDonald, whose deposition occurred on August  
2 30. I know we pointed out in our papers, Your Honor,  
3 that we've attempted to take Sean McDonald's deposition  
4 since early spring. We wanted him to be early in the  
5 process. I think our first request for him was in March.  
6 And for a number of reasons the deposition was postponed  
7 and postponed again by the plaintiffs until ultimately we  
8 had to subpoena his attendance at a deposition at the end  
9 of August. So it was not through any lack of our desire  
10 or intent to take Mr. McDonald's deposition at an earlier  
11 date, but it didn't happen.

12 At that deposition on August 30, just  
13 seven days before we raised this issue with McKesson and  
14 just a month or so before we made the motion to amend, we  
15 discovered all of the particular details and facts as we  
16 set forth in our proposed amendment on inequitable  
17 conduct, which we believe supports without question an  
18 inequitable conduct claim, certainly beyond any question  
19 of futility of the event. We discovered that he had  
20 personally performed and put on presentations of a device  
21 which we believe teaches each and every element of the  
22 claims of the patent more than a year prior to the filing  
23 date, which would constitute an on sale bar, which we had  
24 already alleged invalidity.

1 But what we also discovered because of  
2 his duty of candor as an inventor and his knowledge of  
3 what had transpired, that comparing what he testified to  
4 with the file history, that there had been no disclosure  
5 of material facts and events of material prior art.

6 Remember the difference, Your Honor, between inequitable  
7 conduct and invalidity is for invalidity based on an on  
8 sale bar, you need to be able to establish what was on  
9 sale meets each and every element of each and every  
10 claim.

11 But for an inequitable conduct claim,  
12 you only need to be able to demonstrate that a person  
13 with a duty of candor withheld material information to  
14 patentability. It can be something far less than on sale  
15 bar if it was material to patentability. Of course, you  
16 have to also establish this was done purposefully, with  
17 an intent to deceive the examiner. And that's why  
18 parties don't allege at the early stages of cases,  
19 wisely, inequitable conduct until they gather the facts  
20 and the evidence.

21 Once we gathered that and concluded that  
22 process on August 30, 2007, we immediately notified the  
23 other side of our intent to go forward and we made our  
24 motion to amend in October.

1                   With respect to the antitrust claims,  
2   Your Honor, the original answer and counterclaims raised  
3   a claim for antitrust violations under the Sherman Act,  
4   Section 2, as a result of sham litigation, because at  
5   that time all we were able to discern from the complaint  
6   and from the lawsuit was that we believed that there was  
7   objectively baseless grounds for bringing the action in  
8   light of the claim language, the way in which we believe  
9   the claim language reads or does not read on the  
10   invention, and we didn't believe there was an objective  
11   basis for bringing the lawsuit. So we alleged that kind  
12   of sham litigation under Sherman 2, but we did not have  
13   the ability to allege any other type of antitrust  
14   violations at that time. We had no documents; we had no  
15   fact depositions.

16                   As our papers explain, beginning with  
17   the deposition in late May of Mr. Zwolinski, continuing  
18   through the summer of '07, and again culminating with  
19   Mr. McDonald on August 30th, we discovered that there had  
20   been a course of conduct of predatory pricing, of  
21   sole-source agreements to protect large segments of the  
22   marketplace, of false statements being made about the  
23   plaintiff's product, of false and misleading statements  
24   being made about, not only the defendant's product but

1 the defendant's company and its financial wherewithal,  
2 and all of those facts, I believe, are set forth in great  
3 detail in our proposed amendment.

4 And so therefore, based on the facts and  
5 evidence collected from May of 2007, which is the  
6 earliest possible date we could have discovered any of  
7 this, through the summer of 2007, we put together all of  
8 the factual allegations which, we believe, without  
9 question, supports the Sherman 2 claim based not on sham  
10 litigation but on monopolization or attempt to monopolize  
11 and the Sherman 1 and Clayton 3 claim, as well as the  
12 Delaware state claim which tracks the federal antitrust  
13 laws.

14 So we don't believe the amendments are  
15 by any means futile; we don't believe they are subject to  
16 a motion to dismiss. If the Court allowed the amendment  
17 to be made, for the reasons I described, and I think the  
18 pleadings speak for themselves because they are very  
19 detailed in the proposed amendment. This is not  
20 something we could have discovered at an earlier date.  
21 And in light of the law with respect to allowing the  
22 amendment of pleadings, the liberal track on that, as  
23 well as the fact that there is really no prejudice to the  
24 parties, which is the third prong, and I will explain

1     why.

2                     Prejudice to the parties -- obviously,  
3     there would be a significant prejudice to defendants if  
4     they are not allowed to urge inequitable conduct and the  
5     antitrust claims in light of the evidence which has been  
6     collected, but really nothing has been added to the  
7     lawsuit which will delay the case, delay the trial, cause  
8     any real need for anyone to have discovery in this case.  
9     These issues were all on the table in the original  
10    pleadings, although in a slightly different manner. On  
11    sale bar, as part of invalidity, was already alleged. So  
12    the only thing that changed was Mr. McDonald and  
13    Mr. Keyes' knowledge and familiarity with what happened  
14    as persons of duty of candor, which we needed to meet the  
15    final prong of intent to deceive.

16                    With respect to the antitrust claims, we  
17    needed to gather the evidence and take the depositions of  
18    these individuals. Nothing has changed. We had an  
19    antitrust claim. They knew we had an antitrust claim.  
20    We were already into that whole body of law and the only  
21    thing now is that there is some additional factual  
22    allegations which underlie the antitrust claim.

23                    Your Honor, we did nothing during this  
24    process to hold back the case. And, in fact, we had our

1 -- we presumed, for purposes of discovery and expert  
2 reports, that Your Honor would ultimately or this court  
3 would ultimately allow us to amend and, therefore, we  
4 conducted the discovery which we felt was necessary  
5 anticipating that possibility. We had our expert even  
6 include that in his expert report.

7 THE COURT: I have got all of that.  
8 Just very briefly, if you want to add the affirmative  
9 defense of lack of standing, if the motion to dismiss for  
10 lack of standing is denied, what impact would it have on  
11 the case if we allow you to add that as an affirmative  
12 defense going forward in the case?

13 MR. FABRICANT: Your Honor, we did ask  
14 for that relief, I believe, as a matter of law. Because  
15 it involves subject matter jurisdictions, we are entitled  
16 as a matter of law to challenge standing if it affects  
17 subject matter jurisdiction. So I would submit that we  
18 are entitled to that, notwithstanding the need to amend.  
19 I believe it would remain an issue in the case, unless  
20 this court is prepared to grant, in effect, what would be  
21 summary judgment on the standing issue at this point on  
22 this record, in which case there would be adjudication.  
23 If the court is not prepared to do that, then we would  
24 ask that this amendment be permitted so that we could



1 pursue that through trial.

2 THE COURT: All right. Let me hear from  
3 Mr. Drucker briefly on the remaining motion.

4 MR. FABRICANT: Yes, sir.

5 MR. DRUCKER: Good morning, Your Honor.

6 THE COURT: Good morning.

7 MR. FABRICANT: The issue on the motion  
8 to dismiss the willfulness claim really arises out of the  
9 change of law after Seagate.

10 Just to recap the sequence of events  
11 here. McKesson filed its original complaint in January  
12 2006. They amended in July 2006 -- that was a  
13 substitution of parties. The allegation of willfulness  
14 remained the same. It was just a bare-bones allegation  
15 that defendants sold the accused products with full  
16 knowledge of McKesson's patent rights.

17 THE COURT: Prior to Seagate, would that  
18 have been enough to establish willfulness?

19 MR. FABRICANT: Well, it would have been  
20 enough to allege willfulness in the complaint, but the  
21 issue is really slightly different. We think it still  
22 won't have been enough because it doesn't satisfy the  
23 duty of good faith. That existed before Seagate. That's  
24 a simple matter of law, Ledmen in Rule 8. They have an

1 obligation to show that, at least that they have some  
2 basis for saying that we have that knowledge. Discovery  
3 proceeded. In February 2007, we decided to elect to rely  
4 on the advice of counsel defense, that was a date that  
5 had been set by the Court in the scheduling order.

6 Beginning the following week, we  
7 produced the remaining documents supporting those  
8 opinions. And, I think, by May of 2007, everything had  
9 been produced relating to the opinions of counsel.

10 In August 2007, the Federal Circuit  
11 decided Seagate. And shortly after we contacted  
12 McKesson's counsel and we said, what's the basis for the  
13 allegation of willfulness? It seems the bar has been  
14 raised. Now it's an objective standard. You have to  
15 have acts of objective recklessness in light of knowledge  
16 of the patents. Where is the proof?

17 And we were getting toward the end of  
18 discovery at that point also. We still had no basis from  
19 McKesson as to what the claim of willfulness was based  
20 on.

21 Finally, after exchanging correspondence  
22 for the following months on that question, we moved to  
23 dismiss.

24 And the question is really coming down

1 to, did they have equitable faith basis? What was it?

2                   The response to the motion, McKesson  
3 said, well, we can't answer until we have taken the  
4 depositions of the Italian attorneys who rendered  
5 opinions in this case. And just to recap what happened  
6 with respect to those opinions, in 2002, when Swisslog  
7 was designing its system, they contacted an Italian law  
8 firm, Provissionato & Company. They received an opinion  
9 that would help guide them, help guide them around  
10 possible infringement. The opinion consisted of a survey  
11 of what the relevant patents were in the field and gave  
12 them, just highlighted the major issues that they needed  
13 to focus on to avoid infringement when they were  
14 finishing up the design of their product.

15                   In November 2002, they asked for a final  
16 opinion and the Italian attorneys provided that. They  
17 gave them a final opinion confirming their earlier one  
18 that the patents weren't infringed if they followed  
19 certain steps, and that was before they even entered the  
20 U.S. market.

21                   In 2003, Swisslog entered the U.S.  
22 market and started to make sales here.

23                   In 2002, it's covered in the briefing so  
24 I will raise it with Your Honor, the parties actually had

1 negotiations, there had been several meetings. There was  
2 discussion about whether Swisslog would act as a sales  
3 agent, and whether McKesson would enter into an agreement  
4 to market the Matoped (sic) product.

5                   As part of that, there were meetings  
6 between executives of the two companies. McKesson was  
7 given access to technical information. The senior  
8 engineers at McKesson, Mr. Wangoo (sic) and Mr. Spano,  
9 the software developer, were told about the Swisslog  
10 product. And apparently no mention was ever made of  
11 patents. And the reason this is relevant to this motion  
12 is because in response to our motion, it seems that the  
13 only information McKesson is able to come forward with to  
14 show that they had a good-faith basis at the outset of  
15 the suit is based on the disclosures that were made well  
16 after the suit was filed.

17                   THE COURT: But I have to, in a motion  
18 to dismiss, take their allegations as true.

19                   MR. DRUCKER: That's fine, you can do  
20 that. It changes nothing with respect to what they knew  
21 at the time they filed suit, and that's expressly what  
22 Seagate requires.

23                   THE COURT: Well, if Seagate goes to  
24 proof, it doesn't go to pleadings, and you have

1 acknowledged that, I believe, in your filings.

2 MR. DRUCKER: Correct. This is not a  
3 matter of what's pled.

4 THE COURT: So the problem I am having  
5 is what the procedural basis for me to look behind the  
6 pleadings to figure out what they knew and then make a  
7 decision, I guess, as to whether it was reasonable based  
8 on what they knew at the time of the suit. How is any of  
9 that relevant to a motion to dismiss analysis?

10 MR. DRUCKER: Well, we believe it comes  
11 down to the good-faith basis of filing the suit in the  
12 first place. It comes down to Rule 11, it comes down  
13 to --

14 THE COURT: Then you are just bringing  
15 just an exception motion?

16 MR. DRUCKER: Well, it's actually a  
17 motion to dismiss, because -- well, Seagate says when a  
18 compliant is filed the patentee must have a good-faith  
19 basis for alleging willful infringement. It says so a  
20 willfulness claim asserted in the original complaint --

21 THE COURT: Seagate doesn't say if the  
22 defendant thinks the plaintiff doesn't have that, file a  
23 motion to dismiss.

24 MR. DRUCKER: No, it doesn't say that

1 expressly. In fact, we are not aware of any cases either  
2 way on this point. Seagate is a relatively new decision,  
3 as the Court knows. I don't believe the issue has been  
4 addressed before, not in any reported decision, but it  
5 seems at some point McKesson has to show the basis. And  
6 what they have done -- and this ties into the motion to  
7 amend. They have come forward now with a proposed second  
8 amended complaint, and the entire basis for the  
9 allegations of willfulness are information that they've  
10 obtained in the course of discovery from us relating to  
11 those opinions of counsel. If we had never chosen, if  
12 defendants had never chosen to rely on the advice of  
13 counsel defense, McKesson right now would have absolutely  
14 no basis for their allegation of willful infringement.

15 THE COURT: Okay.

16 MR. DRUCKER: So it's being used against  
17 us, to our prejudice.

18 THE COURT: Okay. I understand. I have  
19 heard enough on those two motions and we will give  
20 Mr. Fabricant a chance for brief rebuttal but not until  
21 after we give McKesson a chance to tell me whatever they  
22 want to tell me on all four motions.

23 MR. JACOBS: Good morning, Your Honor.  
24 Blair Jacobs on behalf of McKesson; Christina Ondrick is

1 with me; Christine Azar from Blank Rome here in  
2 Wilmington; and Jill Dessalines, from McKesson, is also  
3 present.

4 Your Honor, what I would like to do is I  
5 would like to direct some comments to some questions that  
6 the Court asked Mr. Fabricant during his presentation,  
7 then I have some additional points that I want to bring  
8 up and demonstrate that weren't raised during that  
9 discussion. And then I would like to conclude by  
10 demonstrating and showing how the loans were fully repaid  
11 and the evidence that's in the record that demonstrates  
12 that.

13 THE COURT: It's also likely I will have  
14 some other questions for you, but go ahead.

15 MR. JACOBS: And respond to all of your  
16 questions as well.

17 THE COURT: That was implied.

18 MR. JACOBS: Let me start out by, if I  
19 could, by dealing with the state of the law. And I would  
20 ask the Court to take it in this progression.

21 In 1996, the Federal Circuit, in a case  
22 called Minco, Inc. vs. Combustion Engineering, stated  
23 that "construction of assignment agreements are a matter  
24 of state law." It's a quote from the case, that

1 statement has stood. It has not been overturned to this  
2 date.

3 THE COURT: Federal Circuit?

4 MR. JACOBS: Federal Circuit case.

5 In February, we have the DDB  
6 Technologies case. Now, that was a question of whether  
7 the creation of an automatic assignment or an obligation  
8 to assign in the future. So the court was looking at a  
9 specific assignment; was it assignment in the future or  
10 was it an automatic assignment vesting as of right now?  
11 And so that is something that is entwined with patent  
12 law, because it relates at some level to interpretation  
13 of patent rights. And Judge Newman sat on that case, if  
14 you look at the opinion; she also filed a dissent  
15 disagreeing with certain aspects of that case.

16 Then Akazawa, a month later, comes forth  
17 and it says that state law, not federal law, governs  
18 patent ownership. And as part of that, and we believe  
19 the part that is really important to the resolution of  
20 this case, the Federal Circuit says a change in ownership  
21 can occur by operation of state law. So if there was an  
22 assignment, and if the assignment could be extinguished  
23 because it was in effect a security interest, that would  
24 be something that would be governed by Hill (sic).



1 That's why we have focused so much on intent. Actually,  
2 UCC, Provision 9 of the UCC, which is adopted in  
3 Pennsylvania, there is a U.S. provision that's very, very  
4 similar with regard to security interests. We haven't  
5 found a lot of case law where it's been interpreted via  
6 federal law. Pennsylvania has a lot more guidance with  
7 regard to why intent is important with regard to that  
8 issue.

9 THE COURT: So, in your view, though, do  
10 I need to resolve whether it's federal or state law OR do  
11 I analyze the issues the same way either way?

12 MR. JACOBS: I think either way you  
13 analyze the issues based on the intent of the parties,  
14 what the parties intended. Did they intend absolute  
15 assignment, divestiture of all of their rights -- that's  
16 the simple test for was an assignment required -- or did  
17 they intend something that was to serve as short-term  
18 security?

19 Now, one thing that's interesting, Your  
20 Honor, is that we have had three papers that have been  
21 filed by the defendants since this motion was originally  
22 filed, and we filed our opposition. And with our  
23 opposition we filed a declaration of Sean McDonald. Sean  
24 McDonald was the founder of AHI. He sat in on the

1 transactions. He has recollection of what actually  
2 occurred and why it occurred. And he states in  
3 paragraphs 22 and 23 of that declaration, Your Honor,  
4 that he understood that the notes and the assignment,  
5 which he signed on behalf of AHI, were to simply provide  
6 collateral in the case the loans were not paid off. He  
7 also states in paragraph 23 that, of course, start-up  
8 company, his intent was to obtain funding. His intent  
9 was to use the patent application as collateral. It was  
10 not to provide -- this goes to was it intent. An intent  
11 to assign has to be a complete divestiture of rights. He  
12 says my intent was not to do that, it would have made no  
13 sense to provide permanent assignment of rights to the  
14 property. And if you think about the context of how this  
15 arose, it's a start-up company. That's all they had at  
16 this point in time.

17 THE COURT: That maybe what makes sense,  
18 but when he signed, the one thing he signed was the  
19 assignment of invention document which on its face makes  
20 no reference to notes, no reference to collateral, no  
21 reference to security interests. It is, on its face, it  
22 seems to me, a clear and unambiguous assignment. So how  
23 does that fit into your argument?

24 MR. JACOBS: Sure, Your Honor. This is

1 the language in the promissory note that creates the  
2 obligation to provide the assignment, the document that  
3 you are referring to. Okay? And it says, in this  
4 document, "this note will be secured by an assignment of  
5 application for patent for the technology rights." So it  
6 does not say, Your Honor, we are assigning the rights, as  
7 part of this transaction, to this patent application to  
8 the investors; it says this note will be secured by an  
9 assignment.

10 THE COURT: But what about the two-page  
11 assignment of invention document? Let's start there.

12 MR. JACOBS: That was part of the  
13 totality of the circumstance, all of the documents --

14 THE COURT: Do you have any argument  
15 that if I find that I can look at it or you can look at  
16 it separately, the assignment of invention document, just  
17 those two pages, do you have any argument that there is  
18 any ambiguity in those two pages that what was created  
19 here was an absolute assignment?

20 MR. JACOBS: Well, other than the fact  
21 that it was not signed by the assignee, and it is typical  
22 when you have an assignment that it would be signed by an  
23 assignor and an assignee. Other than that, looking at  
24 the language of the document, it looks like a standard

1 assignment. There is no question. It looks like a  
2 standard assignment of rights. But that's not what the  
3 law calls for. The law calls for construing all of the  
4 documents together in determining what the intent of the  
5 parties actually was.

6 And when you do that, Your Honor, you  
7 see that the very document that created the need for that  
8 assignment, the promissory notes, were cancelled, marked  
9 "null and void," 'paid in full,' as soon as the loans  
10 were paid up. When that happens, pursuant to case law,  
11 we are done. There is no right that exists any longer.  
12 And that goes, Your Honor, to the case that you raised  
13 earlier, that Mr. Fabricant will have a chance to address  
14 on rebuttal, the Applied Companies case. In that case  
15 the Federal Circuit looked at similar situations when the  
16 payment of a debt released the assignment and essentially  
17 held that it mooted the intended terms -- there was a  
18 set-off provision that was being disputed in that case.

19 So this is not something that is novel.  
20 It is very consistent when you apply the laws of logic to  
21 these issues that if you have an interest, a security  
22 that's being secured by something, if that's paid off  
23 completely, you don't need the collateral anymore. The  
24 collateral goes back to whoever the original owner was.

1 THE COURT: If that was so clear the  
2 intent, then why does the assignment of invention not  
3 make any reference to security to collateral to debt to  
4 notes?

5 MR. JACOBS: The assignment document --  
6 unfortunately, nobody remembers that, Your Honor. It was  
7 17 years ago. Nobody recalls why -- you know, these  
8 individuals were being represented by counsel. We have  
9 talked to the individuals who were involved. They say it  
10 was a long time ago. We don't recall exactly why things  
11 were done by the lawyers the way they were done. All we  
12 have is the documents as they exist together.

13 But when you look at the dates of them,  
14 it's very likely that what happened was you have that  
15 assignment provision in the promissory note, and so the  
16 lawyer is representing the investor, the lawyer probably  
17 said get me an assignment. I need the assignment. We  
18 negotiated for an assignment of this patent application.  
19 Get me the assignment that's called for by the promissory  
20 note. But the two have to be construed together because  
21 you have to look at what the parties intended here.  
22 That's what controls the ultimate outcome.

23 Now, there was some discussion about the  
24 investors -- and in the deposition of the investors we

1 didn't ask them: Do you have ownership rights? and  
2 things of that nature because they were really, really  
3 clear. We asked them whether they thought they had an  
4 interest, things of that nature. They said, Our lawyers  
5 would construe all these documents; our lawyers would  
6 tell us what we had here. We don't know what we had. We  
7 are not going to get into issues of law. And question  
8 after question after question that was the position they  
9 took. So we were not going to ask them legal questions,  
10 that made no sense whatsoever.

11                   There is a lot of discussion today with  
12 regard to disavow. And that really goes to this new Rule  
13 19(a) issue that has come up subsequent to the original  
14 12(b)(1) motion that was brought. And, Your Honor, just  
15 really quick with regard to 19(a), that requires a  
16 two-prong test. And it strikes us that the first prong  
17 of that test is that if the court were to determine that  
18 an absent party is absolutely necessary for adjudication  
19 of the issues in a case.

20                   Now, there's a two-prong test that comes  
21 along with determining whether a party is absolutely  
22 necessary. The first one is complete relief cannot be  
23 accorded among the parties. The second is the absent  
24 party claims an interest in the subject matter and their

1     absence will be prejudiced in some way by not being  
2     present. Here the absence of the investors does not  
3     affect or impact the Court's ability to afford relief  
4     between McKesson and defendants unless there is some type  
5     of determination that the investors have some type of  
6     ownership interest. At this point in time, they are not  
7     necessary parties. At this point in time, they have no  
8     interest whatsoever. If the Court is to find that they  
9     have an interest, that the assignment grants them some  
10    type of right, at that point in time, we may need to deal  
11    with, Does McKesson have any rights; does McKesson not  
12    have rights; is there a joinder issue here; do they want  
13    to intervene?

14                     They have not sought to intervene to  
15    this point in time. Yet they have been aware of this.  
16    Your Honor, they had said in their deposition we don't  
17    know one way or another whether we have any interest in  
18    this. We are waiting for the court to tell us that  
19    basically. It's a legal issue. They don't have any  
20    understanding one way or another whether they have  
21    interest.

22                     THE COURT: As things stand now, aren't  
23    the defendants potentially subject to an infringement  
24    lawsuit from the investors? And presumably if their

1 lawyer wakes up tomorrow and says, why don't you go ahead  
2 and file suit for infringement, the defendants --

3 MR. JACOBS: They are not, Your Honor --  
4 first of all, I would like to point out that the Third  
5 Circuit has held that the risk of multiple litigation is  
6 irrelevant in a Rule 19(a) analysis, and that's the Field  
7 vs. --

8 THE COURT: But in the patent law  
9 context, isn't that really one of the main principals  
10 underlying the whole issue of patent standards --

11 MR. JACOBS: It would have to be  
12 determined in some way that they had an interest before  
13 there could be a risk of duplicative litigation or  
14 multiple litigation. If the Court, as I believe the  
15 Court should, if the Court looks at what is before the  
16 Court, the standing motion, and if the Court decides and  
17 determines the ownership issue -- and it's the ownership  
18 issue that underlies the standing issue. At that point  
19 in time either the investors will have an interest or  
20 they will not have an interest.

21 It's our opinion, looking at all of  
22 these documents, looking at the fact that the loans were  
23 completely paid off, as was intended, looking at the fact  
24 that the parties have all operated for 17 years --



1 THE COURT: It's your position they  
2 don't have any interest. I understand what to do if I  
3 find that. If I find that they do have an interest, then  
4 I have to dismiss this case for lack of standing and let  
5 you work it out as whether you can come back. Isn't that  
6 right?

7 MR. JACOBS: I would say that's correct,  
8 Your Honor. If you find that they have any interest,  
9 absolutely, there would be a lack of standing at least  
10 until the issues were worked out. There is no question  
11 about that.

12 THE COURT: What about the middle  
13 ground? What if I just really can't tell? At that  
14 point, don't I have to rely on the fact that the burden  
15 is on you and dismiss without prejudice saying they  
16 failed to meet their burden of showing they are the sole  
17 and exclusive owner of these patent rights?

18 MR. JACOBS: That's another interesting  
19 question, because with regard to the 12(b)(1) motion, the  
20 burden is on McKesson. And so certainly with regard to  
21 standing and ownership, the burden is on McKesson to come  
22 forward, as we believe we have with the documents and the  
23 declaration of Mr. McDonald, demonstrating what the  
24 intent of the parties actually was here.

1                   However, it seems that the defendants  
2   are now arguing a Rule 19(a) argument more than a  
3   12(b)(1), and if that's the case, Your Honor, then they  
4   have the burden. They have the burden to come forth and  
5   to demonstrate that the party is necessary and that the  
6   parties are indispensable. And indispensable, Your  
7   Honor, gives you some additional flexibility because, No.  
8   1, one of the questions that comes up all the time is are  
9   the interests of the parties that are missing adequately  
10  represented? This is the second prong of the test. And  
11  beyond that, if they are, the Court can still determine  
12  in equity and in good conscience that the action could  
13  proceed without the parties.

14                   So there is a number of steps that have  
15  to be gone through with regard to this Rule 19(a) motion.  
16  And the Rule 19 motion, the burden falls on the defendant  
17  to demonstrate that we have a necessary party, that they  
18  are indispensable, that there are no reasons, from an  
19  equitable standpoint, after we have gone through more  
20  than two years of discovery and we are ready for trial in  
21  March and these parties have been aware for a long time  
22  of the fact that they could intervene, if they wanted to  
23  intervene. Yet they have taken no overt step. They have  
24  indicated in no way that they believe they have an

1 interest.

2 So our view with regard to the disavow  
3 argument, Your Honor, is that they have nothing to  
4 disavow. They don't know whether they have an interest  
5 or not. So, of course, they can't disavow anything. You  
6 can only disavow an interest that they are aware of  
7 having.

8 I want to address, if I can, Your Honor,  
9 one of your arguments that was made with regard to -- and  
10 this ought to be quick -- with regard to some factual  
11 disputes with regard to whether the notes were paid in  
12 full. We believe that -- there is no evidence that the  
13 documents were tampered with, that somebody wrote "void"  
14 or "cancelled." But there is also a letter, and for the  
15 record, the Bates number on this is M0474908. And this  
16 is a January 3rd, 1991 letter, and you will see it's from  
17 David Cohen. He represented the investors. He was the  
18 investors' attorney. You will see it's to a Mark  
19 Baseman. He was representing AHI and Sean McDonald at  
20 the time. And as you will see, in the second paragraph  
21 of this letter, Your Honor, it indicates, "the notes were  
22 satisfied at the closing of the financing held last  
23 Thursday, and you are authorized to mark the notes  
24 cancelled and paid in full."

1                   And, Your Honor, I would note for the  
2     record that documents --

3                   THE COURT: Hold on. Let me. I'm  
4     sorry. That seemed to be referencing, at least the typed  
5     portion, only the two notes relate to PSF. I see the  
6     handwriting at the bottom stated David Cohen gave  
7     PSF/Heilman's attorney, forwarding all three promissory  
8     notes. Explain that to me. I may be misreading the text  
9     but it looks like that's what it says.

10                  MR. JACOBS: I was going to point out to  
11     the Court, Your Honor, that the documents that were  
12     attached to that letter which bears Bates numbers we  
13     submitted to the Court M0474909 to M0474913 showed that  
14     they, in fact, were the three notes, all of the notes  
15     that are involved here, and that they are all marked  
16     void; they are all marked cancelled.

17                  So it seems that since these documents  
18     were maintained and kept together and that they are  
19     referenced within that the ones that are marked "void,  
20     cancelled, paid in full" are, in fact, the notes that are  
21     described in this record.

22                  THE COURT: Is there anything in the  
23     record and I suppose in depositions about the handwriting  
24     on the bottom of that page?

1 MR. JACOBS: That's our law firm's  
2 internal note. That's about what it has to do with, Your  
3 Honor.

4 THE COURT: Got you. Okay.

5 MR. JACOBS: Just a couple of other  
6 points.

7 The Court inquired about the November  
8 1990 assignment, and we believe that is a very relevant  
9 factor to consider beyond the other issues that have been  
10 considered with regard to the intent of the parties. It  
11 makes perfect sense that the Court could not have used  
12 the same patent application as an absolute assignment in  
13 November of 1990 if the patent application had in fact  
14 absolutely been assigned in June of 1990 because those  
15 rights would already be fully possessed by the investors  
16 at that point in time. So it would have made absolutely  
17 no sense to do it.

18 What this shows instead, Your Honor, is  
19 that basically there is language in these documents to  
20 create some type of short-term protective interests for  
21 the parties who were involved. This was a bridge loan.  
22 It was known to be a short-term loan. It was done for a  
23 start-up company in order to obtain some short-term  
24 financing. They knew more financing was coming down the

1 road. And the intent of everybody involved was for the  
2 patent rights to vest back to the start-up company after  
3 the loans were repaid. The two investors, Your Honor,  
4 served on the board of directors of AHI until it was  
5 acquired in 1996 by McKesson. It was in their interests,  
6 as serving on the board, for the patents to be part of  
7 AHI's property portfolio. AHI was going out and starting  
8 to sell products. They were making representations. You  
9 know, they had to have this protection of their product  
10 to compete in the marketplace.

11 THE COURT: Going back to November 1990,  
12 why should I not then conclude that AHI made a mistake?  
13 That is, if they didn't have any legal ability to assign  
14 the rights again in November of '90 because they had  
15 already done it in June of '90, but either nobody cared  
16 or nobody noticed or everybody made a mistake. But  
17 people do make mistakes. So what do you have that rules  
18 out the possibility or makes it less likely that the  
19 document that is under agreement meant what it meant in  
20 November of 1990 and people acted in a mistaken way  
21 thereafter?

22 MR. JACOBS: Absolutely. The totality  
23 of the circumstances, starting with the fact that we do  
24 have the declaration of Sean McDonald telling us exactly

1 what was intended by all of these documents and what was  
2 going on during this time period. There is nothing in  
3 the record that points in any way to this being an  
4 absolute assignment of rights. There is a lot of  
5 circumstantial evidence; the conduct of the parties, all  
6 of the documents when you read them all together; the  
7 declaration of McDonald; the fact that this same interest  
8 was used in 1994, again, as a security interest in the  
9 Partek transaction. The totality of the circumstance,  
10 Your Honor, is very, very consistent with the conclusion  
11 that, sure, they were just granting a security interest  
12 in June of 1990. They knew it was going to be paid off  
13 and terminated very, very shortly. So they just did the  
14 same exact thing in November. It made sense. They used  
15 the same clause. They just went ahead and granted  
16 another security interest in the patent application,  
17 because the understanding was, Your Honor, that all of  
18 these notes would be paid off when a subsequent round of  
19 funding was provided, which is what happened, basically.  
20 They were paid off with stock and cash in the late  
21 December time period, which led to that letter in January  
22 that we have now showed the Court.

23 So, Your Honor, the intent of the  
24 parties is a fundamental import here. It cannot be

1 ignored. In order to accept the argument that the  
2 defendants are making, the intent of the party has to be  
3 ignored, and that is just inconsistent with the law.

4 THE COURT: Help me out. Because if I  
5 agree that it all makes sense and everyone acted in the  
6 way consistent with your interpretation, why isn't that  
7 nullifying this two-page assignment of invention which  
8 even you can see only its face is clear and unambiguous.  
9 What is it that allows me to do anything here other than  
10 just look at the two pages signed by Sean McDonald.  
11 Maybe he didn't understand what he was doing, maybe he  
12 didn't intend to do it, but seems a clear, unambiguous  
13 assignment, doesn't reference anything else, you can see  
14 there is no evidence of physical delivery. It's a  
15 reassignment. So why would that not be the be all and  
16 end all of this case and everything else is irrelevant?

17 MR. JACOBS: Your Honor, the reason that  
18 it is not the be all and end all is that Pennsylvania  
19 law, federal law, all law that we are aware of that  
20 relates to the interpretation of provisions in contracts  
21 or in agreements require that the provision be considered  
22 within the context of the four corners of the documents,  
23 all of the documents that relate to the transaction.  
24 That document is part, within the four corners of all of



1 the documents.

2 THE COURT: I don't know that until I  
3 look to the other documents. I mean, if I just found the  
4 assignment of invention laying on the security, I would  
5 then get a clear and unambiguous assignment. So what is  
6 it? I think the law is -- you don't get to intent until  
7 you find there is some reason to do that.

8 MR. JACOBS: Right.

9 THE COURT: If what you are looking at  
10 is clear and unambiguous, why would you even want to do  
11 that?

12 MR. JACOBS: The other documents tell us  
13 that the assignment was created only because of the --  
14 it's a security interest. It was to secure something.  
15 So it's not like this wasn't referenced anywhere else.  
16 It's not like this comes in a vacuum.

17 THE COURT: I understand it's elsewhere.  
18 Tell me, if you can, what case or what provision of  
19 Pennsylvania or federal law says I need to look to  
20 those other documents, I can't just --

21 MR. JACOBS: The Sanford case, which is  
22 198 Fed 3rd 421, is the primary case that we cited that  
23 when documents reference each other that reading them  
24 together is required.

1 THE COURT: That all the documents  
2 relied on reference to one another or is it analogous to  
3 here where I have the assignment that doesn't reference  
4 anything, and granted I do have other documents --

5 MR. JACOBS: It's analogous to here  
6 where not every document references each other, but  
7 certainly all of the documents are referenced at one  
8 point in time to a document that ties them together  
9 somehow. And when that is the case, then we have to look  
10 at all of the documents and we have to construe all of  
11 the documents through the lens of what was the intent of  
12 the parties. Did the parties intend a security or did  
13 the parties intend an absolute assignment? If that's the  
14 test, if that's where we end up, Your Honor, the evidence  
15 is overwhelmingly compelling in the corner of the parties  
16 intended this to be a security.

17 Now, with regard to Rule 19, really  
18 quickly, in order to get to that, to the necessary party  
19 aspect of that argument, the Court is going to have to  
20 construe the documents. The Court is going to have to  
21 make the determination as to whether there is any type of  
22 interest. If the Court makes the determination that they  
23 have an interest, as we've mentioned, that removes the  
24 need to move further into the Rule 19(a), the Court can

1 dismiss based on standing. If the Court, however,  
2 concludes, no, they don't have -- because of the intent  
3 of the parties, they do not have an interest, the  
4 interest vested back to AHI, then they are not a  
5 necessary party. So Rule 19 really is not, we don't need  
6 to go down the Rule 19 path. Because either way,  
7 whichever decision, with regard to necessary party, that  
8 the Court arrives at, we don't need to proceed further.

9 THE COURT: And in that third middle  
10 ground -- we didn't really finish that conversation -- if  
11 I just can't tell because it's 17 years later, one  
12 document, as you can see is clear and unambiguous, but  
13 the other documents, let's say I agree with you and say  
14 they are ambiguous, so I just can't tell. With the  
15 burden on you in that context, do you agree that means I  
16 have to dismiss?

17 MR. JACOBS: No, I do not, Your Honor.  
18 And that is because 12(b)(1), if that's what we are going  
19 to interpret this under, establishes an intentionally low  
20 threshold with regard to satisfying a burden. And if we  
21 are going to apply 12(b)(1), the Court has said time and  
22 time again that it's a relatively light standard and  
23 dismissal should only be granted, and is only appropriate  
24 where a claim is so insubstantial, implausible foreclosed

1 by prior decisions of this court or otherwise completely  
2 devoid of merit as to not involve a federal controversy.

3 Under the middle ground scenario that  
4 you are describing, there would still be a lot of  
5 evidence -- if you look at the declaration of McDonald  
6 and the totality of the circumstances surrounding these  
7 transactions -- but the parties intended this to be a  
8 security interest.

9 THE COURT: If I look at it that way,  
10 what happens next? I dismiss the -- I deny the motion,  
11 but I say I don't know who owns this. Procedurally, what  
12 happens to this case?

13 MR. JACOBS: It would then be a question  
14 for the jury, Your Honor. There would be factual  
15 disputes; there would be factual issues.

16 THE COURT: So the whole assignment of  
17 the security interest question would then go to the jury?

18 MR. JACOBS: If the facts are so tied to  
19 the issue that the Court cannot decide the facts based on  
20 everything that the Court has in front of it and assuming  
21 that the burden has not been met with regard to 12(b)(1),  
22 that defendants have not satisfied that, then it would be  
23 a question that would be appropriate for the jury.

24 You know, Your Honor, we have put forth

1 as much as exists in a 17-year-old record to demonstrate  
2 what the intent of the parties actually was here. We did  
3 go out and find those documents showing that they were  
4 paid in full. We have done everything that we could  
5 possibly do to put this together to show that this was  
6 intended to be a short-term security interest and, in  
7 fact, that the parties operated that way 17 years after  
8 the close of the loans in January. Under those  
9 circumstances, there is nothing indicating that this was  
10 anything other than a short-term interest.

11 Looking at that document by itself, in a  
12 vacuum, is inappropriate, because it's referenced by  
13 other documents. It has no meaning outside of the  
14 promissory notes that created it. It's a security  
15 interest in the assignment.

16 If you look at the term sheet which came  
17 before that, there was a change. It said, We want a  
18 security interest in technology rights. That was then  
19 changed to security interests in the assignment of the  
20 patent application. So there are a number of documents,  
21 Your Honor, that tie all of these things together.

22 And for that reason, we would ask the  
23 Court to look at the intent of the parties, to look at  
24 all of the documents, to construe the documents to

1 determine that this was intended to be a short-term  
2 security interest and to therefore deny the 12(b)(1)  
3 motion, and as a result of denying the 12(b)(1) motion  
4 based on ownership to deny the Rule 19 motion for lack of  
5 necessary party.

6 Subject to any further questions that  
7 the Court has...

8 THE COURT: No. We explored that area,  
9 but address the other three motions that are in front of  
10 me if there is anything you want to add to the briefing.

11 MR. JACOBS: I will address, with the  
12 Court's permission, the amendment issue and then I will  
13 allow Ms. Ondrick to address the Seagate issues.

14 THE COURT: Fine.

15 MR. JACOBS: Thank you, Your Honor.

16 Very quickly, Your Honor, with regard to  
17 the amendment, we would focus on prejudice to the  
18 opposing party in our discussion of that amendment.  
19 Discovery is closed, Your Honor. We are dealing with  
20 proposed new claims or causes of action. These new  
21 claims and causes of action will significantly increase  
22 the discovery, and there will be further delay that will  
23 be required. I have a list here of some additional  
24 discovery that will be necessary.

1 THE COURT: You don't have to --

2 MR. JACOBS: With regard to the new  
3 antitrust allegations, there are Section 2 and Section 3  
4 Sherman Act allegations. Looking at the proposed amended  
5 complaint, it appears that there would be some necessary  
6 discovery with regard to Swisslog's management of what  
7 they believe the relevant market to be, industry  
8 practices, their own sales conduct, because they are  
9 alleging inappropriate sales conduct. If they are  
10 engaging in the same exact sales activity, there is going  
11 to be an argument here, of course, that these are  
12 standard business practices; that is something that we  
13 would have to look at.

14 There are third-party pricing policies  
15 that we would have to look at. They do some work for a  
16 predecessor machine, a Homaris machine. You know, how  
17 was the pricing established with regard to that? What  
18 kind of discounts did you give, under what circumstances?  
19 We haven't done any of that discovery yet.

20 The impact. There is a \$10 million  
21 claim attached to these new Sherman Act allegations.  
22 They allege, in the complaint, one lost sale. Well, we  
23 know that one lost sale is nowhere near \$10 million, so  
24 what else are we talking about with regard to -- are we

1 talking about damage in the marketing place; are we  
2 talking about pricing issues; is it on a per unit? But  
3 we have to go through and ask their folks all of these  
4 questions.

5                   They talk about exclusion of third  
6 parties from the marketplace. We are going to have to go  
7 and check and see if third parties have, in fact, been  
8 excluded by this behavior. On the other hand, they make  
9 the allegation that this is a very, very limited market,  
10 so we need to get to the bottom of what do they mean by  
11 exclusion of other parties in the marketplace. There are  
12 some allegations, Your Honor, about an interface; the  
13 interface is not provided by the plaintiff in this case,  
14 McKesson Automation. It is provided by another McKesson  
15 entity. And there are claims that this has caused  
16 problems with third parties. So we will need to talk to  
17 those third parties and see whether, in fact, this has  
18 caused the problems that are being alleged now.

19                   They allege in paragraph 49 of their  
20 proposed amended complaint that customers have repeatedly  
21 requested this interface capability. We are not aware of  
22 that. We are going to have to go out and take discovery  
23 on whether, in fact, this has occurred. There are  
24 questions about the financial viability of the



1 defendants. They allege that false statements were made.  
2 Well, were, in fact, they having financial problems? We  
3 need to get to the bottom of all of that to see whether  
4 these were, in fact, misrepresentations or not. There  
5 will be more deposition discovery necessary on their  
6 product, Your Honor, because they say that McKesson, in  
7 sales presentations, has misrepresented the mechanical  
8 complexity of, and reliability, of their product. In the  
9 first run-through discovery, because they are not alleged  
10 to -- we didn't get into those types of issues,  
11 mechanical, complexity, that didn't go to the claims. We  
12 didn't get into reliability. Those are issues that we  
13 would have to take up again -- maintenance requirements.

14 And then finally, Your Honor, with  
15 regard to this first set, which I generally describe as  
16 the antitrust allegations, the series of claims that  
17 relate, I think, to those charges, there are these  
18 general purchasing organizations that are out there where  
19 you will go and you will say, I want to work with your  
20 general purchasing organization, and if you get that  
21 contract, you get preferred pricing and you provide it to  
22 multiple hospitals. They have alleged, in this new set  
23 of allegations, that that has been done to exclude them  
24 from competing and other third-party competitors from

1 competing in the marketplace. It's not our understanding  
2 of these GPO contracts, but certainly we would need to go  
3 and talk to the folks who provided the GPO contracts to  
4 get a feeling for whether this is truly a sole-source  
5 commitment or can you still sell to other parties despite  
6 the fact that you are giving preferred pricing? Those  
7 are the types of things we haven't provided discovery on.

8 THE COURT: What if I granted leave to  
9 amend to add the antitrust claims and then stayed those  
10 claims, are you prejudiced by that?

11 MR. JACOBS: No. Under the  
12 circumstances, given where we are, how far along we are  
13 in the discovery of this case, that would not be  
14 prejudicial, because the other antitrust claims will  
15 ultimately be resolved at one point in time, either  
16 during pretrial proceedings or later, and we could take  
17 this up separately. It would be like dismissing and  
18 saying you could file this in a separate jurisdiction if  
19 you want to; it would have the same exact impact. That  
20 would balance the prejudices, in my mind, a little bit  
21 more, Your Honor, because versus all of this discovery  
22 and delaying trial dates and things of that nature, they  
23 would still have all of their rights. Their rights would  
24 still be preserved.

1 THE COURT: What about the inequitable  
2 conduct?

3 MR. JACOBS: Inequitable conduct, just  
4 very, have shortly on that, Your Honor.

5 There is some additional discovery that  
6 would be required with regard to that. There are four  
7 inventors here. The defendants noticed the deposition of  
8 all four inventors, and they withdrew three of those  
9 notices after they had filed the four notices. So we  
10 have three inventors who signed declarations to the  
11 patent office as well. They have not been deposed. And  
12 then, Your Honor, there were a number of companies that  
13 were purportedly involved in the demonstrations. These  
14 prior demonstrations that we obviously will contend were  
15 basically just showing them preliminary things, weren't  
16 in fact offers for sale. And they will probably contend  
17 they were offers for sale. They had noticed depositions  
18 of a number of those companies during the process of  
19 discovery as well, and they withdrew them.

20 And so, you know, when they notice  
21 depositions and withdraw them, it's our understanding  
22 that we are not going to obtain evidence from those  
23 parties. And then to come after that and to try to amend  
24 the complaint to add these charges, where now we need to

1 talk to these prior companies that were talked to, we may  
2 need to go and find out what the other inventors know.  
3 Again, it's prejudicial in that it delays, it causes  
4 problems. If the Court were to allow some additional  
5 time for discovery, it may be something that we could get  
6 done and still allow the amendments to take place, but  
7 there is additional work that needs to be done and it  
8 would be prejudicial.

9 THE COURT: Okay. Thank you.

10 MR. JACOBS: Thank you, Your Honor.

11 Real quick, Your Honor, with regard to  
12 Section 261, if the Court does find that there is  
13 something ambiguous in the assignment agreement, then  
14 McKesson, when they had this in their due diligence file,  
15 would have had no actual notice; it would have been  
16 ambiguous. They won't have known the meaning of what it  
17 was they were looking at if it was an ambiguous document.

18 So the actual notice issue can be  
19 handled two ways, as we argued it in our brief, if you  
20 look in a due diligence file in 1996 and you see -- okay,  
21 there is an assignment here, but you also have related  
22 documents that you pulled together and you say, oh, that  
23 was extinguished when they repaid this loan back in 1990,  
24 does that put you on actual notice that there is an issue

1 of this nature? We don't think so. We think it's a  
2 reasonable conclusion.

3 THE COURT: It goes back to the question  
4 I asked you about mistake. I mean, if your client made a  
5 mistake in '96, you know, why should anybody else bear  
6 the burden of that? They had the documents. They made a  
7 decision, either consciously or without adequately  
8 investigating that it was extinguished. If I find that  
9 it wasn't extinguished, I don't see how you are helped.

10 MR. JACOBS: If the documents were  
11 ambiguous, however, perhaps there wouldn't be actual  
12 notice because they wouldn't be able to interpret the  
13 meaning one way or another.

14 THE COURT: Well, they were on notice of  
15 the documents. Their legal impact nobody knew, for sure.  
16 But I appreciate your bringing up 261, because I do have  
17 one other question about that.

18 261 doesn't in any way give AHI more  
19 ability to assign something that it didn't have. The  
20 point is, if I find that they assigned it away in June  
21 '90 and you never got it back, 261 can't help you.

22 MR. JACOBS: It doesn't revive a right  
23 in any way. It goes more to notice and whether you were  
24 on notice at the time that the future transaction took

1 place.

2 THE COURT: All right. I appreciate  
3 that. Thank you.

4 MR. JACOBS: Thank you, Your Honor.

5 MS. ONDRICK: Good afternoon, Your  
6 Honor.

7 THE COURT: Good afternoon.

8 MS. ONDRICK: I'm going to briefly  
9 address the two Seagate-related motions. I am going to  
10 start with defendants here today have admitted that Rule  
11 8 still applies to willful infringement allegations.  
12 They have also now, as I understand it, they've admitted  
13 that our initial pleadings, back in January of 2006, met  
14 the Rule 8 pleading requirement under Underwater Devices  
15 at the time. They don't contest that. The case law is  
16 very consistent that McKesson's allegation was  
17 sufficient.

18 When the law changed, after Seagate, the  
19 pleading requirement didn't change. Seagate didn't talk  
20 about pleading requirements. It didn't talk about notice  
21 of pleading. It didn't talk about Rule 11. The law did  
22 change, though; and McKesson's allegation is still  
23 sufficient under Seagate. Seagate talked about proof and  
24 evidentiary burdens.

1                   McKesson very specifically alleged that  
2   defendants had knowledge of the patent, and that their  
3   acts were deliberate. That is enough under the old  
4   standard or the new standard, even if there is one. I  
5   contend there is no difference in standards, but if you  
6   were to look at McKesson's pleadings and apply it to  
7   Seagate, which has the two-part test that would be, first  
8   prong would be this objectively -- the objective inquiry.  
9   And so under an objective inquiry, it would be  
10   objectively reckless for a business to have knowledge of  
11   a patent, to have knowledge of what their device does and  
12   to have deliberately infringed that patent. That is  
13   sufficient.

14                   Then also, under the subjective column,  
15   we alleged they specifically had knowledge. Therefore,  
16   we have also met the subjective prong under Seagate.

17                   Our pleading stands under both  
18   requirements. There has been one case, since Seagate, to  
19   specifically decide this issue, the F5 Networks case.  
20   The F5 Networks case specifically held Rule 8 still  
21   applies. Notice pleading is all that's required, and an  
22   allegation that alleges notice of the patent is  
23   sufficient and is proper for a willful infringement  
24   allegation.

1 THE COURT: Let's say I agree with you.  
2 Do you have a preference as to whether I deny their  
3 motion to dismiss the willfulness allegations or grant  
4 your motion to leave so that the expanded allegations of  
5 willfulness become the complaint?

6 MS. ONDRICK: It would be our preference  
7 to deny the motion. We only filed the amendment as a  
8 precautionary motion in light of all the issues they had  
9 raised.

10 THE COURT: And what practical  
11 difference would it make which way I went on that if I  
12 agreed with you?

13 MS. ONDRICK: I don't think it  
14 effectively makes any practical difference. Our  
15 allegation is still there, it still survives, and it's  
16 still before the court. The real issue of their motion  
17 goes to summary judgment, which is going to be decided  
18 down the road, and that's where all of the arguments that  
19 they are raising are proper. And all their arguments on  
20 Rule 11 have nothing to do with what is in the pleadings.

21 Their argument is we can't figure out  
22 what plaintiff knew to make this allegation. There is  
23 privileged information there. There is information where  
24 they have never served a discovery request. They never



1 served an interrogatory to find out what facts we had at  
2 the time. They have never kind of handled this issue.  
3 So what they are talking about in Rule 11, they are just  
4 speculating because they don't know what we knew.

5                   There are lots of things that courts  
6 look at when determining if there is a good-faith basis  
7 for bringing a claim. There are numerous, numerous  
8 factors. One that is frequently looked at is the  
9 similarity between the patent claims and the accused  
10 device. That often is one factor that is enough. There  
11 are many other factors that are involved in looking at  
12 it. Those factors include how long this patent has been  
13 around. This patent was issued in the mid 1990s. It's  
14 not like this patent was issued the day before this  
15 lawsuit was filed. The patents have been touted, the  
16 product is well-known. All those things get factored  
17 into this inquiry.

18                   THE COURT: All right. Thank you very  
19 much.

20                   Mr. Fabricant, it won't be a full hour,  
21 but a few minutes to address a few points.

22                   MR. FABRICANT: Thank you, Your Honor.

23                   Your Honor, I think many of the things  
24 that Mr. Jacobs said to Your Honor, to the Court, both in

1 the briefs and on oral argument, really support and  
2 emphasize the reason why it's inappropriate for this  
3 court, on either a standing motion or even a motion with  
4 respect to indispensable parties, to adjudicate, to reach  
5 a decision as to whether or not this was an assignment,  
6 an outright assignment or security interest which somehow  
7 was self-extinguished. When the Court looks at the cases  
8 where this has come up, either in the standing context or  
9 in the indispensable party context, you don't find the  
10 courts deciding the issue and then after they decide that  
11 McKesson has the rights, not the investors, I now find  
12 that the investors were indispensable parties; what the  
13 courts do is they reach the conclusion that there is a  
14 general issue as to whether or not this party that's not  
15 present before the court has an interest, not adjudicate  
16 that fact, but reach the conclusion that there is a  
17 genuine possible claim out there.

18 The words of Rule 19(a) themselves talk  
19 about a party not joined that has a claim, and that's  
20 been construed to mean either they have asserted it or  
21 they may have it. So Rule 19 is directly related to just  
22 the question of whether this Court should proceed to  
23 adjudicate without the presence of those parties who have  
24 knowledge of the facts and would be necessary for the

1 jury or the Court to ultimately reach that conclusion.

2 THE COURT: So if I analyze it under  
3 Rule 19 and say with that particular issue therefore they  
4 are indispensable parties, what do I do then? Do I  
5 dismiss or do I give them a chance to see if they could  
6 join those parties?

7 MR. JACOBS: Well, I will answer. I  
8 think the standing issue falls for the same reason. They  
9 do have a burden of proving that they have substantial,  
10 all of the substantial rights of this patent. I think on  
11 the standing issue it's subject matter jurisdiction, the  
12 Court, if it agrees with our position, has to dismiss.

13 On the indispensable party issue, yes, I  
14 think the Court could allow them an opportunity to join  
15 what is a necessary and indispensable party, but if  
16 joinder is not feasible and if this Court can't get  
17 personal jurisdiction over those parties, then at that  
18 point I think the Court would be left with no choice but  
19 to dismiss.

20 Now, dismissal without prejudice, as  
21 egregious as that might sound in the context of a  
22 two-year old battle, Your Honor, I think the Court has to  
23 weigh the ultimate prejudice to plaintiff, on the one  
24 hand that brought this lawsuit with this open issue, and

1 the prejudice to the defendants, on the other hand, if  
2 the case proceeds to trial, millions of dollars more  
3 expended, possible risk of injunctive relief. We have an  
4 ongoing business that our client has that's at jeopardy  
5 here. The risk of the defendant, if the defendant  
6 litigates this and ultimately cannot have a final  
7 resolution of patent invalidity, cannot have a final  
8 resolution of noninfringement, cannot have a final  
9 resolution of unenforceability, has spent all of its time  
10 and effort and money only to have some parties in  
11 Pennsylvania, who were not of our making, mistake or  
12 otherwise, sitting with an outright assignment document,  
13 which they could now use with lawyers to pursue our  
14 client. So those are the relevant issues of prejudice  
15 which this Court has to take into consideration, both  
16 under the standing motion as well as under the  
17 indispensable party motion.

18 And I thought one of the most compelling  
19 pieces of evidence that Mr. Jacobs put up on the screen,  
20 Your Honor, was that letter that Your Honor paid  
21 attention to with respect to the notes being repaid. And  
22 what I think is crucial with respect to that letter, as  
23 Your Honor pointed out, it refers to only two of the  
24 three notes. First of all, the letter hasn't been

1 authenticated. They never chose to take the deposition  
2 of Mr. Cohen. The letter only refers to two of the  
3 notes, not the third. The letter which purports --  
4 although it says no enclosures; right on the face of the  
5 letter it says no enclosures. The letter purports to  
6 refer to two of the three notes. And then Mr. Jacobs  
7 testified, well, there are notes attached to the letter  
8 and they are marked cancelled and void, but the letter  
9 itself purports to state to the reader you are authorized  
10 to mark them cancelled. So how are notes already marked  
11 cancelled or void attached to a letter that says you are  
12 authorized to mark them cancelled.

13                   Issues are being raised. And the reason  
14 I focus on that, there is no evidence about the third  
15 note. Let assume that's an authentic letter; let's  
16 assume two of the three notes were repaid; let's assume  
17 there is a genuine dispute as to the third note. Under  
18 the assignment document, which is before the Court, not  
19 only would Mr. Heilman but the seed fund would also, the  
20 seed fund whose two notes were supposedly repaid, they  
21 would still have their interests under the assignment  
22 document because they have an outright assignment, and  
23 there is nothing in that assignment document, as this  
24 Court has noted, which cross-references anything. There

1 is nothing in the assignment document that says if a note  
2 which AHI has given to Dr. Heilman has been repaid but  
3 the other notes haven't been repaid, then Dr. Heilman has  
4 to reassign but the seed fund doesn't. There is nothing  
5 in that assignment document which considers the  
6 possibility of repayment of the notes, reassignment under  
7 any circumstances. We have to take that document on its  
8 face, and on its face those individuals own 100 percent  
9 of the rights to this patent and are free today to pursue  
10 my client's for patent infringement.

11 And I think the mere fact that there is  
12 a genuine, legitimate dispute as to this that needs to be  
13 adjudicated by a court as to clear title, quiet title,  
14 before my client is subjected to the financial and other  
15 economic burden of having to defend a patent infringement  
16 lawsuit that could ruin it's business against a party who  
17 doesn't even and may not even be ultimately determined to  
18 be defensible.

19 THE COURT: What do you say about the  
20 burden on a motion to dismiss on standing that Mr. Jacobs  
21 referenced?

22 MR. FABRICANT: I read that case. The  
23 case says that. It's still the burden. I don't know how  
24 you get beyond the burden of proof being more likely than

1 not. I mean, they have got to have the burden of  
2 persuading this Court that in likelihood, it's more  
3 likely that they own these claims than not. And that  
4 only gets us then to, if Your Honor is satisfied that  
5 they have met that burden. And I think there are some  
6 very serious issues raised by the documents which have  
7 been located and presented to this court. But if Your  
8 Honor gets by that burden, then I think we do have the  
9 very serious consideration how we proceed to litigate  
10 that issue if in this court without those parties.

11 And when Mr. Jacobs read from Rule 19,  
12 he left out several of the provisions. It's certainly a  
13 prong of 19(a), whether complete relief can be afforded  
14 the parties before this court. It cannot be under  
15 19(a)(1), because we can't litigate completely our claims  
16 of invalidity and noninfringement, enforceability even  
17 without looking to the absent parties. And then as far  
18 as on indispensable party, the law is clear, by all of  
19 the courts that I have read, where you have a party who  
20 may have a claim of ownership, they are an indispensable  
21 party in a patent infringement lawsuit, because  
22 substantial, all the rights have to be before the Court.

23 THE COURT: How about anything on the  
24 Applied Case from the Federal Circuit?

1 MR. FABRICANT: I did not see a  
2 reference to it in our brief, and I apologize for that.  
3 My recollection of reading that case, and what the  
4 plaintiff's comment on that case was in their brief, is  
5 that, first, it would not even apply to a situation where  
6 there was an issue as to whether there was an outstanding  
7 payment because it addressed an issue where the terms of  
8 the document were rendered moot as a result of the  
9 payment. It wouldn't apply to that.

10 Then second, I remember, I could not  
11 tell in my recollection of reading that case that we were  
12 dealing with the same kind of instruments here: an  
13 independent assignment, standing on its own, without  
14 cross-references to set-off agreements and other  
15 conditions which might, under certain circumstances as  
16 was applicable in that case, render that document moot,  
17 not the same contractual situation as is present before  
18 this court, even if payment was resolved, which we don't  
19 believe it has been.

20 THE COURT: And how about the Akazawa  
21 case, in March of 2008, the opinion on state law versus  
22 federal law, the Federal Circuit, I just want to give you  
23 a chance if you have anything.

24 MR. FABRICANT: I think Mr. Jacobs



1 correctly stated the law, as I understand it, that the  
2 Federal Circuit has really not been inconsistent in these  
3 rulings, that the February decision in DDT, I think it  
4 was, dealt with a self-executing assignment or a promise  
5 to assign in the future as opposed to other assignment  
6 questions that might come about. And I think that's the  
7 slight difference between the two cases, that we have got  
8 a self-executing assignment, as was the case in the DDT  
9 case. You wouldn't necessarily look to state law to  
10 construe it; in fact, they said you wouldn't look to  
11 state law. And in other assignment situations, and I  
12 think Mr. Jacobs correctly stated the law, you can and  
13 should look to state law.

14 THE COURT: Two quick questions with  
15 respect to the other motion; I don't know if you want to  
16 address them, either you or Mr. Drucker. Basically, do  
17 you agree that some, at least, of the discovery that he  
18 outlined would be necessary if we allowed the amendment?  
19 That's for you.

20 And then what is your view on if I give  
21 you leave to amend with respect to the antitrust claims  
22 but I stay those claims, what is your position on that?

23 MR. FABRICANT: Your Honor, obviously,  
24 when any attorney defends a motion to amend a pleading,

1 one of our obligations is to build the prejudice side and  
2 urge additional discovery being necessary. I don't  
3 believe in this case it seriously is necessary. And the  
4 reason I believe that's so is after we made our motion to  
5 this court, on the motion to amend, they took additional  
6 depositions of our business people on the antitrust  
7 issues; Mr. Patrician's deposition on the market share,  
8 on the marketing activities, on all of the things that  
9 Mr. Jacobs went through. They took Mr. Ellis'  
10 deposition, Mr. Patrician's deposition; they asked the  
11 president of the company, marketing and antitrust  
12 questions. They had an ample opportunity to ask those  
13 questions, and they did. So I don't really believe that  
14 they are going to redepose those people and ask  
15 additional questions on the same subject.

16               Next I would urge that at the time we  
17 first advised them of our intent to make the motion and  
18 we made the motion, discovery was opened in this case,  
19 fact discovery, until January 31, 2008, Your Honor. They  
20 never raised with the Court, other than to reserve their  
21 rights on the various scheduling orders, which they did.  
22 They never raised with the Court, you know, we need to  
23 take this discovery within the cut-off period.

24               Your Honor, again prejudice to the

1 parties. Swisslog and Translogic should not be  
2 prejudiced by the unfortunate situation in this district  
3 that we did not have a district judge for well over a  
4 year, and this issue sat -- and I'm not blaming anyone  
5 because I realize this court has been overburdened as a  
6 result of the lack of a district court judge. We are  
7 dealing with a very short period of time from the time we  
8 got the documents and the depositions and the request to  
9 amend.

10 THE COURT: And what about staying the  
11 antitrust, would that prejudice you?

12 MR. FABRICANT: That's a result which is  
13 not particularly attractive to the defendants. This is a  
14 very long and expensive experience and burden for the  
15 defendants. We will be trying the antitrust claim under  
16 Sherman 2, which we raised in the original answer and  
17 counterclaim. We have all of these patent issues. To  
18 require a separate trial on a later date on related  
19 antitrust issues, which cover much of the same ground,  
20 much of the same relevant market.

21 THE COURT: But they aren't all  
22 antitrust issues.

23 MR. FABRICANT: Then I think it's  
24 prejudicial to the defendants to not be able to at the

1 same time trial to be able to tell the complete story to  
2 this jury. I think it's prejudicial. It's better,  
3 obviously, than not having those claims at all because we  
4 believe they are viable claims; we believe the evidence  
5 is serious. We would prefer, and we think it's  
6 prejudicial not to allow the jury to consider those  
7 factors with the others.

8 THE COURT: Mr. Drucker, may have a note  
9 for you, and then you will be done.

10 MR. DRUCKER: Just quickly to address  
11 Ms. Ondrick's arguments. Basically, they are looking at  
12 the pleading requirement just to say if you say that the  
13 other side had knowledge of the patents, that's all you  
14 need to do. Those are the magic words. You utter those  
15 words, and you are fine.

16 We say there is an additional obligation  
17 as to Rule 11 that still is not being addressed here.  
18 There has to be some basis of saying that there was  
19 knowledge of patents at the time the complaint was filed.  
20 If they are only looking at conduct that came afterward,  
21 if they are only look at things they learned about during  
22 the course of discovery, they are admitting that they had  
23 no knowledge at the time that the complaint was filed or  
24 when it was amended for the first time that our client

1 had any knowledge of the patents. You would expect to  
2 see something. There was no mention in the course of  
3 dealings in 2002 when the parties were negotiating, when  
4 they were exchanging information, there was no mention of  
5 the patents then. Their papers in opposition to the  
6 motion are silent about that.

7 So if you allow them to just utter the  
8 magic words, the defendants had knowledge of the patent  
9 in suit and was selling the accused products, and that  
10 satisfies their burden then it eviscerates Rule 11, if  
11 they can just get around it by saying that and there is  
12 nothing further to support it.

13 THE COURT: Thank you for that.

14 MR. FABRICANT: Your Honor, I don't know  
15 what other questions you may have. There is one other  
16 issue unrelated to today's motion that at the appropriate  
17 time we would like to bring to your attention.

18 THE COURT: I don't have any other  
19 questions on the motions we talked about.

20 MR. JACOBS: Your Honor, if I could, I  
21 just have 20 seconds. I promise.

22 THE COURT: With respect to these  
23 motions?

24 MR. JACOBS: With respect to these

1 issues.

2 THE COURT: Okay.

3 MR. JACOBS: I just wanted to bring to  
4 the Court's attention, this is paragraph 21 of the  
5 McDonald declaration, and he says there: "In addition,  
6 to signing two of the promissory notes and the term sheet  
7 on June 29th, I signed an assignment as part of the loan  
8 transaction."

9 So McDonald ties together into the loan  
10 transaction all of the documents, including the  
11 assignment. So I just wanted to -- I was stretching my  
12 memory to figure out where we had that, and that's where  
13 it was.

14 THE COURT: Thank you.

15 MR. FABRICANT: If I could comment on  
16 that, Your Honor.

17 THE COURT: I don't need any comment on  
18 that. I understand where that fits in, but your other  
19 issue.

20 MR. FABRICANT: Yes. The other issue  
21 is, and I don't know whether this is an issue which we  
22 should properly bring to Your Honor's attention or if  
23 Judge Robinson should resolve this.

24 Recently within the last week or ten

1 days, after the time for identifying the asserted claims  
2 passed, after the time for identifying the disputed claim  
3 terms passed, and after the time when our initial expert  
4 reports were exchanged, including our expert report on  
5 invalidity, which identifies prior art, addressing the  
6 claims being asserted, the plaintiff chose to assert  
7 additional claims of the patents, not previously asserted  
8 after this schedule went forward new claims, for which we  
9 did not agree, or proposed disputed claim language nor  
10 claims for which our expert was able to address or did  
11 address prior art, because those were not claims being  
12 asserted.

13                   So we are now confronted with, in the  
14 middle of our expert schedule, new claims being asserted,  
15 our expert not having addressed it in his initial report,  
16 creating a ramification of, perhaps, a schedule delay  
17 because we now need -- if they are allowed to do this, we  
18 need to go out there and search for prior art, have our  
19 expert address the prior art, have them address the  
20 noninfringement position, which we haven't previously  
21 addressed. And it is a serious change, at this late  
22 date, on the patent side of the case, to change the  
23 asserted claims at this state without asking us to do so,  
24 without the Court's permission.

1 THE COURT: If I am not mistaken, I  
2 think the reference to me carves out claim construction  
3 and Judge Robinson has claim construction -- help me out.

4 MR. JACOBS: That's correct.

5 MR. FABRICANT: That's correct. But it  
6 doesn't exactly deal -- I guess it begins being a  
7 procedural issue because, putting aside the fact if they  
8 are allowed to add the claim, obviously we have to  
9 propose claim construction and we will get to the point  
10 of the expert. But it does involve procedure, because  
11 does our expert now have to consider these claims? Does  
12 our expert now have to proffer prior art? Should we  
13 consider in our expert report, which is due in another  
14 week on noninfringement.

15 So we are left really objecting to but  
16 not knowing exactly what to do.

17 THE COURT: Let me hear what Mr. Jacob's  
18 view on how I should handle that, if in fact, I should  
19 handle it.

20 MR. JACOBS: Your Honor, if the Court is  
21 inclined to handle it, we have agreed to grant additional  
22 time to the extent additional time is necessary. This  
23 came about as a result of some information that was  
24 provided in one of their initial expert reports. So



1     until we had that information, we were not prepared to  
2     assert these additional claims. They are dependent  
3     claims. So they depend upon independent claims that were  
4     already asserted. To the extent that it does require  
5     additional time or an amendment of expert reports, we are  
6     certainly willing to work with the defendants, as we have  
7     done all along, to make sure that everybody can get done  
8     what they need to get done in an appropriate time period  
9     here.

10                     And at the same time, they have  
11     supplemented one of their expert reports and added some  
12     additional claims after their initial first round of  
13     expert reports came in and we agreed to allow them to do  
14     that, even though it obligated us to do some additional  
15     stuff with our expert as well. My view, is this  
16     something that, given the time period we have, we can  
17     work out and we certainly can bring it in. It's three  
18     dependent claims, certainly something that shouldn't take  
19     a lot of time, but we will work with them to the extent  
20     it causes any undue problems for them.

21                     THE COURT: Here is what we are going to  
22     do. I am going to tentatively view this as a  
23     discovery-type issue that would be referred to me and  
24     would be governed by my standard procedure is that we

1 would schedule a telephone conference. And a couple of  
2 days before I would get a three-page letter from the  
3 party that is complaining, and the next day a three-page  
4 letter from the other side. And so I can set a schedule  
5 now for letters, but let me just, before I buy that  
6 litigation for myself, did I understand from Mr. Jacobs  
7 that maybe if I had left you all on your own for a few  
8 more days maybe you could work this out without me having  
9 to get involved? Do you think you have an issue and are  
10 at an impasse that's just not going to get resolved  
11 without some judicial involvement?

12 MR. FABRICANT: Your Honor, I would  
13 prefer if Your Honor set the schedule. It is a relevant  
14 change. Although it involves only three new claims, it's  
15 a significant addition at this point.

16 I would also ask for some direction on,  
17 I don't know whether Your Honor would have an opportunity  
18 to resolve this, but the only immediate impact that is  
19 that both sides have expert rebuttal reports due on, I  
20 believe, the 28th of May, and it would be very difficult,  
21 in light of this latest development, for our expert to  
22 address those three additional claims in the report due  
23 in a short time.

24 THE COURT: Scheduling, I'm almost

1 certain, is in front of Judge Robinson. I think you  
2 folks met with her.

3 MR. JACOBS: We will work with her.

4 THE COURT: This is what we will do.

5 That I will look for a three-page letter from Swisslog by  
6 the end of day tomorrow on this issue, a three-page  
7 letter from McKesson by the end of the day Thursday on  
8 this matter. And we will, I will go back and look at my  
9 calendar, but sometime Friday we will try to put this on  
10 for a call. However, be on notice that if after  
11 reviewing your letters I determine or Judge Robinson  
12 determines it's not an issue for me, then we will let the  
13 parties know that you are not having a call with me on  
14 Friday, and there will be some other mechanism for  
15 resolving the issue.

16 MR. JACOBS: And in the meantime, Your  
17 Honor, we will try to reach out and negotiate and maybe  
18 we can obviate the need for the letters.

19 THE COURT: If you can resolve it,  
20 that's great. Don't leave the courtroom; I will send my  
21 deputy back in with a tentative time for a Friday  
22 telephone conference. But if I don't get letters  
23 tomorrow and Thursday, there won't be a teleconference  
24 and even if I get letters and it's not my issue, we will

1 let you know.

2 MR. FABRICANT: Your Honor, if it is  
3 your issue, I would just let you know that we have a  
4 conflict from about noon until three o'clock on Friday.

5 THE COURT: We will go and take a look  
6 at it whether we have time in the morning. Okay.

7 Anything further?

8 MR. JACOBS: No, Your Honor.

9 MR. FABRICANT: No, Your Honor.

10 (The hearing adjourned at 1:10 p.m.)

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1 C E R T I F I C A T E

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3 STATE OF DELAWARE:

4 NEW CASTLE COUNTY:

5 I, Ellen Corbett Hannum, a Notary Public within and  
6 for the County and State aforesaid, do hereby certify  
7 that the foregoing oral argument was taken before me,  
8 pursuant to notice, at the time and place indicated; that  
9 the statements of participants was correctly recorded in  
10 machine shorthand by me and thereafter transcribed under  
11 my supervision with computer-aided transcription; that  
12 the transcript is a true record of the statements given  
13 by the participants; and that I am neither of counsel nor  
14 kin to any party in said action, nor interested in the  
15 outcome thereof.

16 WITNESS my hand and official seal this 27th day of  
17 May A.D. 2008.

18



19

Ellen Corbett Hannum, RMR, CMR  
Notary Public - Reporter  
Delaware Certified Shorthand Reporter  
Certification No. 118-RPR, Expires 1/31/11

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